

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U-338-E) for Authority to, Among Other Things, Increase Its Authorized Revenues for Electric Service in 2009, And to Reflect that Increase in Rates.

Application 07-11-011
(Filed November 19, 2007)

Order Instituting Investigation on the Commission's Own Motion into the Rates, Operations, Practices, Services and Facilities of Southern California Edison Company.

Investigation 08-01-026
(Filed January 31, 2008)

**REPLY BRIEF
OF THE
DIVISION OF RATEPAYER ADVOCATES**

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1. Introduction

Pursuant to Rule 13.11 of the Commission's Rules of Practice and Procedure, the Division of Ratepayer Advocates files this Reply Brief to address some of the arguments made by parties relating to the test year 2009 General Rate Case (GRC) Application filed by the Southern California Edison Company (SCE or Edison). DRA's Reply Brief is directed primarily to arguments SCE made in its Opening Brief. Many of SCE's arguments are taken from its Rebuttal testimony, which DRA's Opening Brief already addresses. In this Reply Brief, therefore, DRA focuses primarily on arguments DRA did not previously address, or that require further discussion.¹

1.1. SCE Provides an Inaccurate Portrayal of the Actual GRC Revenue Requirement Increase It Is Seeking

SCE continues to inaccurately portray its actual 2009 GRC Revenue Requirement increase. The currently authorized base revenue requirement for SCE is \$4,340.7 million. The current SCE GRC revenue request for 2009 is \$5,161.8 million,² which is an increase of \$821.1 million (or 18.91%) above the currently authorized base revenue level of \$4,340.7 million. The \$821.1 million increase is the accurate picture of the increase in revenues that SCE is seeking for its GRC functions.

Within the Joint Comparison Exhibit³, and its Opening Brief⁴, SCE continues to include the impact of increased sales to show a so-called present rate revenue and a lower "preliminary" increase of \$676 million before the (one-time) PBOPs⁵ credit of \$72 million, resulting in a "net" requested increase of \$695 million. This is an inaccurate and incomplete portrayal of the actual increase in "GRC Authorized Revenue" SCE has requested. The appropriate basis for comparison is the actual GRC revenue requirement increase SCE is seeking which is \$821.1 million, or 18.9%, above the currently authorized base revenue level.

¹ Silence on any subject should not be interpreted as assent.

² Joint Comparison Exhibit, Table I-1, p. 5.

³ Joint Comparison Exhibit, Figure 1-1, p. 1.

⁴ SCE Opening Brief, p. 2.

⁵ Post Retirement Benefits Other than Pensions.

DRA is recommending a GRC revenue requirement of \$4,502.6 million which is a \$161.9 million, or 3.73 %, increase above the currently authorized revenues. This amount represents the increase that DRA recommends above currently “authorized” revenues for SCE to operate its GRC functions.

DRA also has prepared a sales forecast and agrees to the one-time PBOPs credit of \$72 million. Although an increased estimate of sales may serve to mitigate the immediate “rate” impact of this proposal, SCE is guaranteed recovery of the GRC revenue requirement regardless of the ultimate level of sales relative to the “forecast.” If sales are lower than the forecast, then SCE is still entitled to its authorized GRC revenues and customers will have to make up any shortfall. The estimate of increased sales is simply an estimate and in reality has no bearing on the authorized GRC revenues approved in this case relative to the currently authorized GRC revenue requirement. The authorized GRC revenue requirement is the appropriate basis of comparison because it is the revenue being authorized by the Commission for SCE to operate its GRC distribution, transmission and generation functions. A depiction of the GRC revenue requirement changes for the SCE Test Year 2006 GRC can be found in D.06-05-016 on page 2.

DRA has also discovered that the Joint Comparison Exhibit that was served on July 9, 2008 incompletely portrays some of DRA’s positions. In some entries, SCE has set forth its position and the reasons for it, yet offers only a summary of DRA’s conclusions with none of the reasons behind them.

For example, for DRA Issue 042, Vehicle Expense, SCE allots itself 11 single-spaced lines to relate its position, and then paraphrases DRA’s position in 4. DRA’s position should have been set forth as follows:

SCE has not demonstrated that the costs incurred for vehicle expenses during the historical period for the specific FERC Accounts/ sub-accounts has been insufficient, or justified doubling ratepayer funding for vehicle costs over 2006 recorded adjusted expense levels. DRA asked SCE to provide a detailed breakdown of the specific costs included in the specific calculations for the identified FERC accounts/ sub-accounts. SCE’s response was to refer DRA to other SCE testimony generally describing Vehicle Equipment and Aircraft Fleet and Allocating Vehicle Costs, but did not provide the specific information DRA requested.

DRA asks that, unless DRA specifically references the Joint Comparison exhibit, DRA’s actual testimony be used instead for a description of DRA’s position.

1.2. SCE's Threats Of Layoffs and Dire Consequences Are Contradicted by the Record

The first 14 pages of SCE's brief are filled with threats of "dire consequences" to SCE, its employees, its customers, and, in fact, the southern California region if SCE's request for a multi-billion dollar rate increase is not approved.⁶

For example, there is SCE's claim that "DRA would cut 2,213 jobs from SCE's forecast; 1,488 immediately."⁷ SCE makes this claim in numerous places, sometimes adding charts and diagrams that purport to "show" DRA's "workforce reductions."⁸ This threat is not borne out by the evidence.

SCE is currently paying its entire workforce with presently authorized GRC revenues. DRA's lower forecasts do not represent a reduction to the workforce but merely reject the bloated and excessive increases proposed by SCE to the current workforce. As the historical figures show, SCE's O&M and other expenses have increased significantly over the past several years, and sizable workforce increases are already embedded in SCE's authorized revenues. For test year 2006 (SCE's last GRC), the Commission granted SCE an increase of \$333.1 million, a significant 9.75% GRC increase with additional attrition year increases in 2007 and 2008.⁹

DRA's recommendations in this GRC represent an increase of ***\$161.9 million¹⁰ over*** SCE's presently authorized GRC revenues. Nothing in DRA's testimony recommends or implies layoffs. That is SCE's threat,¹¹ and SCE's resort to unsupported threats should not distract the Commission from basing its decision on the record, rather than the rhetoric, in this case.

⁶ SCE Opening Brief, p. 3.

⁷ SCE Opening Brief, p. 4.

⁸ SCE Opening Brief, Summary, 2nd page (unnumbered); See also, pp. 4, 36.

⁹ D.06-05-016, p. 2.

¹⁰ Joint Comparison Exhibit, p. 5, line 1; Ex. DRA-02, p. 3, line 2.

¹¹ Ex. SCE-15, p. 7.

1.3. SCE's Claim that the CARE Program Will Mitigate the Impact of SCE's Proposed Massive Increase is Contradicted by the Record and Commission Findings

SCE argues that "... parties' assumptions that the GRC would have a negative effect on SCE's customers and the southern California region ... does not hold up under scrutiny..." because "... widespread enrollment in the CARE¹² program largely insulates SCE's most vulnerable customers from the rate increase."¹³ SCE does not define what it means by "largely insulates" or "most vulnerable customers," but the facts in the record and in previous Commission findings show SCE's assurances to be virtually meaningless.

The CARE program can only help those whose household income is at or below 200% of the federal poverty guidelines. CARE provides no assistance to customers whose income is above that level.

In 2005, a family of four living in Los Angeles County needed an income of \$69,670 to cover the basic expenses of rent, food, transportation, child care and taxes. At that time, the median income for a four-member family in Los Angeles County was \$65,500. Thus, as the Commission then found, "...without taking into account sudden changes in things such as utility charges, the median family would already face a deficit of \$4,170."¹⁴ That was in 2005. Even then, the Commission noted, "CARE does nothing to help many of these families."¹⁵

Now, the situation is even worse. The CARE income limit for this type of family is about \$43,000 and the cost of living has increased.¹⁶ Clearly, as the Commission has found, this will leave many families in need without help. SCE's glib promise that the effect of SCE's request on customers will be mitigated by the CARE program is contradicted by the facts in this case and previous Commission findings.

¹² California Alternative Rates for Energy.

¹³ SCE Opening Brief, "Summary of SCE's Recommendations," 1st page (unnumbered).

¹⁴ Interim Opinion Approving Various Emergency Program Changes (2005) D.05-10-044, p. 6.

¹⁵ *Id.*, p. 7.

¹⁶ *See* Ex. TURN-8, p. 4.

1.4. SCE’s Claim that its GRC Request Will Add 17,000 Jobs to the Southern California Economy Is Speculative and Provides No Justification for Making SCE Ratepayers Resolve Southern California’s Economic Crisis

SCE points to a study it paid for that concludes that SCE’s proposed rate increases will have an “actual positive impact on the southern California economy.” According to this study, “SCE’s GRC request will add 17,000 new jobs.”¹⁷ That same study concludes that DRA’s recommendation will add 10,500 new jobs to the southern California economy.

Both predictions are, of necessity, speculative. Moreover, SCE has provided no legal authority that supports singling out SCE’s beleaguered ratepayers to solve the region’s economic crisis. The Commission’s mandate is to set rates that are just and reasonable, not to set rates to enhance SCE’s self-image as a corporate benefactor.

SCE says that “[n]o party took issue with the[se] conclusions....”¹⁸ Since SCE offered the study for the first time in Rebuttal, no party had an *opportunity* to submit testimony to respond to it.¹⁹

1.5. SCE’s Suggestion That, “Because of the Relative Amount of Revenues At Issue” the Commission Should Not Do Anything to Manage Rates in This GRC Should Be Rejected

In its Opening Brief, SCE says that “history” shows that, “[g]iven the relative amount of revenues at issue in this GRC compared to total revenues, the Commission’s ability to manage customer rates through this GRC is quite limited.”²⁰ According to SCE, because “...the revenues from SCE’s general rate case represent only about 36% of SCE’s total revenues, ... attempting to manage overall customer rates through these base rate revenues would be futile.”²¹ This argument should be rejected.

SCE has made no attempt to rein in its spending, and now suggests that the Commission should not bother either. The Commission has the responsibility to ensure that rates are just and

¹⁷ Ex. SCE-24, Appendix C.

¹⁸ See SCE Opening Brief, p. 2.

¹⁹ Ex. SCE-24, Appendix C.

²⁰ SCE Opening Brief, p. 6.

²¹ Id.

reasonable, and the GRC is the Commission's opportunity to protect SCE's ratepayers from SCE's rapacious demands for this **18.91% increase** in GRC revenues. The record in this case is filled with examples of SCE's exaggerated and unsubstantiated forecasts. By holding SCE to its burden of proof, the Commission can afford SCE's ratepayers the protection to which they are entitled by law.

1.6. SCE's Claims of Over-Spending in Prior Years Do Not Justify the Rate Increase It Seeks in This GRC

SCE says that "history" shows that, "[o]ver a period of years, SCE has spent more to provide service to its customers than the Commission authorized in its GRC decisions."²² Although SCE may have spent more than it was authorized over the years, there is no record evidence that it did so "to provide service to its customers."

Various SCE witnesses in this GRC claimed that SCE deferred spending in various Transmission and Distribution Operation and Maintenance and capital categories to "...deal with an unprecedented and unforeseen growth in both new customers and system load..."²³ None of SCE's witnesses, however, identified what projects the overspending went to, or in any other way showed that this overspending was "...to provide service to its customers."

As TURN points out in its Opening Brief:

[e]ven in 2005, the year with the highest overspending in total O&M, when Edison did overspend for T&D, the primary area of overspending was in the A&G accounts. Edison overspent \$95.385 million in A&G account 920. Account 920 includes short-term and long-term incentive compensation..."²⁴

For the reasons set forth in DRA's testimony and Opening Brief, DRA does not agree that either the intent or the effect of SCE's Executive Incentive Plan payments is "to provide service to SCE's customers." Nor does SCE's Results Sharing program, whose forecast costs are based on years of data manipulation and fraud, provide value to ratepayers.²⁵ SCE's argument that its overall compensation is comparable to other companies included in a Total

²² SCE Opening Brief, p. 7.

²³ See, e.g., Ex. SCE-17A, p. 1.

²⁴ TURN Opening Brief, pp. 8-9.

²⁵ Ex. DRA-09, pp. 6-9; 36-48.

Compensation Study does not redeem either of SCE's incentive programs, or show they provide ratepayer benefits.

Far from showing that "history provides another reason ... to be skeptical about recommendations to cut the revenue requirement," SCE's history shows how overstated and unreliable SCE's forecasts are.

1.7. Use of 2007 Recorded Data

SCE filed its Application in November 2007. Towards the end of the first quarter of 2008, SCE provided its 2007 recorded adjusted data. On May 16, 2008, SCE served its Rebuttal testimony.

In its Opening Brief, SCE criticizes DRA for not consistently using 2007 data in its analysis.²⁶ SCE is correct that, in some circumstances, DRA did use 2007 data, and in others DRA did not.

For that matter, SCE did not consistently use 2007 data in its analysis either. For example, in the area of IT capital, once SCE had 2007 data, it used it for "... all IT capital forecasts with the exception of the NERC CIP project" and the ERP project.²⁷

As discussed in the decision in SCE's last GRC, "... there are a number of acceptable methodologies for forecasting test year costs."²⁸ For example, in that GRC, the Commission noted that parties used "... averages and trends of recorded costs, most recent recorded costs, as well as forecasts based on budgets or incremental budgets over recorded amounts."²⁹ In this case, DRA used different methods depending on the facts and circumstances surrounding the particular program or activity. The reasons for each of its forecasts are set forth in the individual DRA exhibits.

In its Opening Brief, SCE refers to ex parte communications in which DRA says that its O&M expense forecasts are "generally comparable to recent historic (2006) levels."³⁰

²⁶ SCE Opening Brief, p. 9.

²⁷ SCE Opening Brief, p. 188.

²⁸ Opinion on Southern California Edison Company's Test Year 2006 General Rate Increase Request (2006) D.06-05-016, p. 10.

²⁹ Id.

³⁰ SCE Opening Brief, p. 9, citing attachment to DRA Ex Parte Notice Dated June 25, 2008.

In fact; DRA's recommendations for SCE O&M expenses for Generation, and Transmission and Distribution (T&D) for TY 2009 exceed SCE's recorded 2006 expenses. DRA recommends \$398.8 million for Generation O&M³¹ and \$428.942³² million for T&D O&M. SCE's corresponding recorded 2006 numbers are \$389.3 million for Generation O&M³³ and \$428.799 million for T&D O&M.³⁴

1.8. SCE Has Not Met Its Burden of Proof

As the Applicant, SCE has the burden of proving that the increases it requests are reasonable. SCE's Opening testimony failed to meet that burden in numerous areas. In its Rebuttal testimony, SCE attempted to shore up its initial showing with hundreds of pages of argument, but little in the way of substance. Altogether, SCE's showing in this case is possibly the most voluminous and least justified request for a rate increase any energy utility has filed in recent years.

Far from showing that its proposed increases are justified, SCE has instead shown itself to be unable or unwilling to make any effort to control its costs. DRA's testimony details the areas where SCE has failed to justify its forecasts with clear and convincing evidence. As the Commission has held in the past, "Any doubts ...must be resolved against the party upon whom rests the burden of proof." That is SCE.

2. Generation Expenses

2.1. Generation Expenses – Nuclear Generation

2.1.1. NEI Fees

SCE points with pride to the alleged low 15.3% rate of NEI expenditures in 2006 for legislative advocacy, public relations and advertising.³⁵ DRA notes that since 2006, NEI's rhetoric supporting the expansion of nuclear power and the Global Nuclear Energy Partnership (GNEP) has significantly increased, as the nuclear industry piggy-backs on the threat of climate

³¹ Ex. DRA-73.

³² Ex. DRA-05, p. 5.

³³ See Ex. SCE-02A.

³⁴ Ex. SCE-03B, p. 52.

³⁵ SCE Brief at 13.

change as a new marketing point. The Commission should not rely on NEI's self-reported 15.3% percentage, since it is in NEI's interests to minimize or underreport the actual amount spent on legislative advocacy, public relations and advertising. Even paid NEI spokespersons, such as former Greenpeace leader Patrick Moore, state "they needn't register as lobbyists because they don't lobby; they *educate*."³⁶

The fundamental issue remains: SCE's ratepayers should not be contributing to the nuclear industry's trade association that promotes expanding nuclear power when no new nuclear power plants are proposed for California. The Commission should permit SCE to recover only 50% of its NEI fees from ratepayers.

2.1.2. SONGS Refueling Outage (RFO)

SCE opposes DRA's \$1.8 million adjustment to the TY 2009 RFO that removes the cost of a SONGS Unit 2 PTY 2011 steam generator inspection. SCE proposes to average the cost of the steam generator inspection over 3 years, even though the steam generator inspection occurs in PTY 2011.

SCE should have asked to recover the PTY 2011 steam generator inspection costs as part of its Attrition mechanism, instead of part of TY 2009 base rates. SCE is essentially asking the Commission to average forward its costs, so that costs that won't be incurred until PTY 2011 are partially recovered in TY 2009, PTY 2010 and PTY 2011.

2.1.3. The Commission Should Not Adopt a Palo Verde Two-Way Balancing Account

SCE proposes a two-way balancing account for Palo Verde O&M costs.³⁷ DRA opposes a two-way balancing account for Palo Verde, since it undermines the purpose of Test Year ratemaking, which is to establish base rates and put the risk on the utility to manage its costs. SCE laments that it has under-recovered its share of Palo Verde costs, but this is precisely the risk SCE took when it invested in Palo Verde. SCE needs to work with APS to have a better understanding of Palo Verde's operating costs going forward. If SCE wants to reduce its risk at

³⁶ <http://www.motherjones.com/news/feature/2008/05/spinning-the-atom.html> (emphasis in original).

³⁷ SCE Brief at 15-16.

Palo Verde with a two-way balancing account, then SCE's return on equity should also be reduced.

2.1.4. Palo Verde O&M/Increased Staffing

SCE argues that DRA "provides no evidence" to support its opposition to increased staffing at Palo Verde.³⁸ SCE is incorrect, DRA cited SCE's data responses on engineering and maintenance backlogs, which show that the backlog trends are declining over time.³⁹ SCE's "evidence" of the need for additional staffing at Palo Verde amounted to a two-page list of 195 added staff without any justification for why additional staff would be needed.⁴⁰ SCE has provided no evidence to support adding the 195 new employees admitted to during discovery. The Commission should reject SCE's request and send a clear message to SCE that it needs to properly justify its staffing increase requests.

2.2. Generation Expenses – Coal Generation

2.2.1. Corners O&M/Increased Staffing

SCE argues that it needs to hire an additional 50 employees at Four Corners, in anticipation of retirements and higher workloads.⁴¹ As was made clear during hearings, SCE does not have a strong handle of the actual number of employees at Four Corners.⁴² The Commission should not approve increased funding based on SCE's *forecast* that there will be retirements.

2.2.2. Mohave Decommissioning

SCE opposes DRA's recommendation to remove the 15% contingency from SCE's decommissioning estimate.⁴³ SCE ignores DRA's reasoning: since recovery of decommissioning costs will ultimately be reviewed in the Mohave Balancing Account, an added

³⁸ SCE Brief at 17.

³⁹ Exh. DRA-75, SCE response to DRA data request DRA-SCE-020-TXB, Q.1.

⁴⁰ Exh. DRA-75, SCE response to DRA data request DRA-SCE-020-TXB, Q.4.

⁴¹ SCE Brief at 18-19.

⁴² Exh. DRA-75, SCE response to DRA data request DRA-SCE-103-TXB, Q.1 and Ex SCE-16.

⁴³ SCE Brief at 20.

contingency amount is unnecessary. The Commission should reject SCE's unnecessary contingency.

2.3. Generation Expenses – Hydroelectric Generation

2.3.1. Hydro O&M

SCE argues that it needs to spend \$4.3 million to hire additional employees for its Hydro operations, in anticipation of retirements and higher workloads.⁴⁴ The Commission should not approve increased funding based on SCE's forecast that there will be retirements. SCE admitted they would have to keep the proposed new hires busy working on activities unrelated to Hydro operations, such as renovating SCE Company housing, or work that could be contracted out instead, such as vegetation management.

2.3.2. Cloud Seeding Expenses

SCE continues to denigrate the 2003 National Academies of Science report that was skeptical of the effectiveness of weather modification.⁴⁵ The CEC has also raised questions about the effectiveness of weather modification, as have recent media reports.⁴⁶ The Commission should not increase the amount of money spent on dubious cloud seeding projects.

2.3.3. Mountainview/Unallocated Future O&M

SCE argues for an additional \$0.5 million for "unallocated future O&M" projects for Mountainview, essentially arguing that the plant's short operational life creates uncertainty about future operations.⁴⁷ SCE has apparently created a new version of "cost-plus" ratemaking: not only should ratepayers pay for the actual costs of operating Mountainview; they should also pay for speculative future problems.

Enough is enough: Mountainview has been in operation since 2006, and SCE should have a thorough understanding of its operations by TY 2009, without the need for what is essentially

⁴⁴ SCE Brief at 21.

⁴⁵ SCE Brief at 22.

⁴⁶ <http://www.energy.ca.gov/2007publications/CEC-500-2007-008/CEC-500-2007-008.PDF> "Year-by-year analyses of streamflow have shown both positive and negative effects in seeded basins" at 7; <http://www.ktvu.com/video/17022143/index.html>

⁴⁷ SCE Brief at 26.

an O&M contingency. SCE already has \$1 million set aside for anticipated “Technical Information Letters”, another layer of contingency funding.⁴⁸

2.4. Generation Expenses – Gas-Fired Generation

2.4.1. Peakers O&M/The Commission Should Adopt a One-Way Balancing Account for the Peakers

SCE opposes DRA’s recommendation of a one-way balancing account for the Peakers: “[t]he delay in constructing the fifth Peaker does not merit the one-way balancing account proposed by DRA.”⁴⁹ SCE admits that the fifth Peaker has not been fully permitted, let alone built, as it “anticipates that the fifth Peaker can be operational as early as August 2009.”⁵⁰ SCE also admits that the non-operation of the fifth Peaker in TY 2009 would save 10 to 20 percent of its forecast O&M cost, roughly \$1-\$2 million out of a forecast of \$9.7 million.

Given the uncertainty surrounding the commercial operation date of the fifth Peaker and the substantial savings potential, the Commission should adopt a one-way balancing account for the Peakers. SCE will not be harmed if the fifth Peaker comes on line earlier than August 2009, and ratepayers will be protected from paying for five Peakers and only receiving service from four Peakers.

2.4.2. Solar Two Decommissioning

SCE opposes DRA’s \$4.6 million cost cap recommendation for the proposed decommissioning of Solar Two.⁵¹ SCE continues to misconstrue DRA’s proposal – DRA does not object to SCE’s inclusion of contractor profit and overhead in its cost estimate. DRA proposed a cost cap since SCE has already applied two layers of contingency to its cost estimate, a 25% contingency in the original 1999 cost estimate and another 40% contingency in its update for the GRC. Adopting a cost cap has the added benefit of meaning that the Commission does

⁴⁸ Exh. DRA-73 at 27.

⁴⁹ SCE Brief at 27.

⁵⁰ SCE Brief at 27 (emphasis added). It is not clear whether SCE means commercially operational or in a pre-commercially operational mode.

⁵¹ SCE Brief at p. 29-30.

not have to look at this issue ever again, and it sends a strong message to SCE to manage its costs and be accountable for its forecasts.

2.5. Generation Expenses – Project Development Division

SCE opposes DRA and WPTF’s recommendations to reject \$26.6 million in funding for generation RD&D funding and added staffing for the Project Development Division (PDD).⁵² Despite the billions of dollars of generation RD&D funding spent by generation manufacturers, venture capital, and governmental agencies (U.S. DOE and CEC), SCE still believes it should enter the risky world of investing in generation projects that “are not yet commonly utilized in the marketplace”⁵³ with a pitiful war-chest of \$20 million.

In what can only be an attempt to distract ratepayers from SCE’s stratospheric electricity rates, SCE has apparently decided it should be allowed to throw money at winners and losers among new generation developers. SCE has lost sight of its core mission: to provide ratepayers with reliable electricity at reasonable rates. SCE should acquire proven generation technologies and leave generation RD&D to the robust market. If SCE really wants to invest in generation RD&D, then one of its unregulated corporate affiliates should risk shareholder money, not ratepayer funds, on that venture.

SCE now states that it will “make public the information and knowledge gained as a result of RD&D funding, to the extent that disclosure would not negatively impact the interests of its customers.”⁵⁴ While a seemingly magnanimous gesture, this appears problematic at best since new generation developers probably will not be interested in partnering with SCE if SCE plans on giving away their intellectual property in some ill-defined fashion.

WPTF is correct that SCE’s RD&D funding request is duplicative of SCE’s proposed \$30 million Renewable Integration and Advancement (RIA) program.⁵⁵

⁵² SCE Brief at p. 30-33.

⁵³ Exh. SCE-2, Vol 12 at p. 9.

⁵⁴ SCE Brief at p. 31.

⁵⁵ WPTF Brief at p. 8-9.

DRA's recommendation of \$0 for new generation RD&D and a cost cap of \$3 million for the memorandum account should be adopted. Expanding PDD's mission to include new generation RD&D is an inappropriate use of ratepayer funds.

2.5.1. Pebbly Beach O&M

SCE opposes DRA's recommendation of \$4.5 million for Pebbly Beach O&M, as opposed to SCE's request of \$5.2 million.⁵⁶ SCE argues that DRA's use of a three-year average of recorded 2005 and 2006 and SCE's forecast 2007 O&M costs is "fundamentally flawed." SCE inexplicably attacks DRA's acceptance and use of SCE's 2007 O&M forecast. The real problem is that SCE does not like the results of DRA's 3-year average forecast method. DRA used a three-year average since there have been major fluctuations in recently recorded costs, ranging from a high of \$5.3 million in 2004 to a low of \$4.3 million in 2006. Use of a three-year average is appropriate since it smoothes out the major fluctuations going forward. The Commission should adopt DRA's \$4.5 million recommendation for Pebbly Beach O&M.

2.6. Generation Expenses – Other

DRA has no comment on this issue at this time.

3. Transmission and Distribution Expenses

In its Opening Brief, as in its Rebuttal, SCE argues that "DRA's conclusory assertion that SCE's thousands of pages of testimony, tens of thousands of pages of supporting workpapers, and thousands of responses to data requests do not 'justify' our request' does not meet [DRA's] burden to produce evidence."⁵⁷ SCE seems to confuse volume with quality.

As the Commission held in a prior SCE GRC:

The volume of material that SCE submitted in its direct and rebuttal evidentiary showings was nothing short of massive.... . [W]e are compelled to observe that size alone does not constitute fulfillment of the utility's obligation to explain and justify its request. In fact, an overly massive utility showing can obscure the utility's substantial justification for its request (or lack thereof), thereby detracting

⁵⁶ SCE Brief at 33-34.

⁵⁷ SCE Opening Brief, p. 35.

from the parties' and the Commission's ability to conduct timely review and evaluation.⁵⁸

In this GRC, SCE undoubtedly produced vast quantities of documents, which DRA duly analyzed. As DRA noted in testimony, however, DRA sought objective or verifiable support for SCE's claims that its base year 2006 expenditures were insufficient to meet its test year needs. In nearly every instance, SCE provided only generalizations and summaries. SCE's voluminous TDBU O&M showing is a largely unsubstantiated wish list.

For example, SCE asks for **over \$100 million** dollars for vehicle costs in the test year.⁵⁹ This is nearly **double** what SCE spent in the 2006 base year. SCE's vehicle expense forecast is based on averages of SCE forecasts.⁶⁰ DRA used SCE's 2006 recorded adjusted vehicle expenses. In its Opening Brief, as in its Rebuttal, SCE claims that adoption of DRA's recommendation would "force" SCE to sell approximately 850 vehicles, incurring a one-time cost of "at least \$21 million to terminate leases," and "return approximately 50 rental vehicles depriving hundreds of field personnel of vehicles needed to perform their duties."⁶¹

These predictions of "drastic consequences" are taken from SCE's Rebuttal testimony⁶² which, in turn, is apparently based on charts, lists and general data request responses.⁶³ SCE's Rebuttal included no source documentation that would enable any independent verification of SCE's claims. SCE's threatened "drastic consequences" are unsubstantiated.

SCE also claims that DRA did not examine the effects of its recommendations on reliability and safety.⁶⁴ This attempt to shift the burden of proof to DRA should be rejected. Current rates are presumed to be just and reasonable. DRA also presumes that SCE is operating its system with current rates in a safe and reliable manner. If SCE is **not** operating its system in a safe and reliable manner at present, then it should say so. Otherwise, SCE has failed to meet its

⁵⁸ Opinion on Base Rate Revenue Requirement and Other Phase 1 Issues (2004) D.04-07-022, pp. 8, 9.

⁵⁹ Ex. DRA-40, Response to Q.01a.

⁶⁰ 10 RT 807, Lickteig/SCE; Ex. SCE-03B, p. 103.

⁶¹ SCE Opening Brief, p. 36.

⁶² See, e.g., Ex. SCE-17G1, p. 13-14.

⁶³ Ex. 17G1, Appendix.

⁶⁴ SCE Opening Brief, p. 36.

burden to show that the safe and reliable service it is providing today will suddenly cease to be safe and reliable in 2009 if SCE does not get every extravagant increase it requests.

Finally, SCE repeats the threat that DRA's O&M "...expense cuts translate to cutting TDBU Full Time Equivalent (FTE) employees from 5,125 FTEs in 2006 to 5,105 FTEs in 2009."⁶⁵ SCE is currently paying its employees with rates approved in its TY 2006 GRC and DRA's recommendations provide SCE with O&M expense levels slightly above 2006 recorded, even when the Spot Bonuses and ACE award payouts are removed.⁶⁶ Moreover, SCE can use the "high levels"⁶⁷ of overtime, which SCE has been paying out for years and which are embedded in SCE's historical expenses, to pay for new FTEs if it needs them.

3.1. T&D Expenses – Transmission Maintenance and Inspection, and Load Dispatching

DRA discusses Transmission Maintenance and Inspection O&M expenses in its Opening Brief beginning at page 25.

In SCE's Opening Brief, in connection with FERC sub-account 560.100, SCE says that:

[t]here are a number of instances where DRA claims to be "normalizing" a request by dividing by three, without ever explaining why that is the correct calculation. If an activity results in a one-time cost, then over a three-year period, the correct adjustment to set a test year request is to take one-third of the forecast cost, thereby making SCE "whole" over the GRC cycle. Since in every instance DRA "normalizes," it does not appear to dispute that it is a recurring activity, the adjustment does not make sense. This instance of DRA's "normalizing" is no exception.⁶⁸

As DRA discussed in its testimony, DRA did not "normalize" only when the expenses were one-time events. For example, in connection with FERC sub-account 560.100, Engineer's Desktop Software Upgrades, DRA also made "normalized adjustments" where SCE already has costs embedded for the activities in current rates. As SCE's data response on the subject stated,

⁶⁵ SCE Opening Brief, p. 35.

⁶⁶ Ex. DRA-05, p. 6.

⁶⁷ SCE Opening Brief, p. 35.

⁶⁸ SCE Opening Brief, p. 38.

“[i]n 2009 we will *continue* upgrading desktop software at a cost of approximately \$478,000.”⁶⁹ This appears to DRA to mean that SCE has embedded costs for software upgrades, and estimates its total cost of upgrades in 2009 at \$478,000. DRA, therefore, normalized the expenses over the three-year period.

DRA notes that it also “normalized” expenses to remove expenses that DRA considers should not have been included at all, such as expenses for Spot Bonus payments and ACE awards.⁷⁰

In connection with FERC sub-account 563.100, and the Transmission Line Clearance study, SCE says in its Opening Brief that “DRA’s conclusions are based on faulty arithmetic, misinterpreting the material SCE provided.”⁷¹ DRA noted in its testimony that SCE’s forecast is more than **206%** over SCE’s 2006 recorded adjusted expenses in this area.⁷² SCE’s witness on the subject said that figure, the 206.20% increase over 2006 recorded, “sounds like the right amount,”⁷³ so DRA is not sure what fault SCE now finds in DRA’s arithmetic.

In any case, SCE’s comment that its “recorded costs cannot ‘absorb’ the incremental activities SCE must undertake,”⁷⁴ does not refute the appropriateness of DRA’s recommendation. DRA’s recommendation provides SCE with a 40% increase over SCE’s 2006 expenses.⁷⁵

3.2. T&D Expenses – Substation Operations and Maintenance

DRA addresses SCE’s Transmission Maintenance (Substation Operations and Maintenance) O&M expenses in its Opening Brief beginning at page 31.

In SCE’s Opening Brief, in connection with FERC Account 570.400, cable trench covers, SCE argues that “...without any support, DRA ‘normalizes’ the request over a three year

⁶⁹ See Ex. DRA-05, p. 12, lines 32-33 citing SCE testimony, emphasis added .

⁷⁰ Ex. DRA-05, p. 6.

⁷¹ SCE’s Opening Brief, p. 40.

⁷² Ex. DRA-05, p. 23.

⁷³ 9 RT 742, Young/ SCE.

⁷⁴ SCE Opening Brief, p. 40.

⁷⁵ Ex. DRA-05, p. 22.

period.”⁷⁶ As discussed above in Section 3.1, DRA normalized SCE’s forecasts where SCE already has costs embedded for the activities in current rates. SCE provided a report that SCE “averaged 364 man days of labor per year to replace trench covers.”⁷⁷ Since SCE is already doing 364 man days of labor per year for this activity, the costs are already embedded in its historical expense levels. DRA, therefore, normalized SCE’s request.

SCE’s argument that DRA’s proposal would “...create unacceptable safety risks...” is not supported by the record. SCE apparently does not consider replacing trench covers of sufficient importance to have any process set up to determine which trench covers pose a safety risk or to track the time it takes to repair the trench covers that have been identified as a safety risk, so DRA continues to recommend the Commission adopt DRA’s forecast.

3.3. T&D Expenses – Distribution Maintenance and Inspection

DRA addresses Distribution Operations and Maintenance expenses in its Opening Brief, beginning at page 42.

In SCE’s Opening Brief, in connection with FERC sub-account 583.400, SCE says that it “...forecast \$25.667 million, while DRA proposes an \$8.384 million reduction.”⁷⁸ Actually, DRA reviewed SCE’s request, which represents an increase of more than **85%** over its 2006 recorded expenses of \$13.999 million. DRA recommends \$17.283 million, which is an *increase* of \$3.284 over 2006 expenses.⁷⁹

In connection with FERC sub-account 584.400, SCE includes the following argument: “Moreover, DRA witness Dao Phan does not dispute that cable testing will improve the effectiveness of the cable replacement program. In Ms. Phan’s testimony, DRA goes on to recommend that SCE begin testing the older cables in its system prior to replacement under the cable replacement program.”⁸⁰

⁷⁶ SCE Opening Brief, p. 49.

⁷⁷ Ex. DRA-05, p. 56.

⁷⁸ SCE Opening Brief, p. 51.

⁷⁹ Ex. DRA-05, p. 96.

⁸⁰ SCE Opening Brief, p. 53, footnote 296.

SCE does not include a citation to the DRA testimony authored by Ms. Phan, but if SCE is referring to Exhibit DRA-15, Underground Cable Replacement – B.I. 482,⁸¹ SCE’s summary is incomplete. In DRA-15, DRA finds SCE’s cable replacement forecast “inadequately supported”⁸² and says that, “[u]ntil SCE is able [to] assess its cable population, through cable testing or other means, DRA recommends SCE continue replacing its cable at a replacement rate comparable to recent years.”⁸³

3.4. T&D Expenses – Tree Trimming and Removal

DRA addresses Tree Trimming and Removal in its Opening Brief beginning at page 56.

3.5. T&D Expenses – Other Transmission and Distribution Operations and Maintenance Accounts

DRA addresses Other Transmission and Distribution Operations and Maintenance Accounts in its Opening Brief beginning at page 67.

In SCE’s Opening Brief, in connection with BPTI⁸⁴ Programs/ Job Orders, SCE notes DRA’s concern that “one-time expenses have not been removed from the historical data.”⁸⁵ SCE says that it has “demonstrated that the costs of completed projects have been removed from our *test year request*.”⁸⁶ SCE’s statement that it removed costs from *the test year* does not resolve DRA’s concern about the historical period.⁸⁷

As the Commission noted in an earlier SCE GRC decision:

... we must be sufficiently informed to know that adopting a given estimate makes sense. Part of this process involves making sure that we do not repeatedly approve revenues to meet a one-time cost...⁸⁸

⁸¹ Ex. DRA-15, pp. 24,

⁸² Ex. DRA-15, p. 26, line 13.

⁸³ Ex. DRA-15, p. 27.

⁸⁴ Business Process and Technology Improvements.

⁸⁵ SCE Opening Brief, p. 61.

⁸⁶ Id, emphasis added.

⁸⁷ Ex. DRA-05, p. 122, lines 23-29.

⁸⁸ D.04-07-022, p. 7.

DRA continues to recommend that the Commission adopt SCE's 2006 recorded adjusted expense levels for BPTI Program/ Job Orders.

3.6. T&D Expenses – Training

DRA addresses Training expenses in its Opening Brief in the FERC accounts where SCE requested increases for that purpose.

3.7. T&D Expenses – Workforce

DRA addresses Workforce expenses in its Opening Brief at page 82, and above in this Reply Brief in the Introduction.

3.8. T&D Expenses – Vehicle Costs and Allocation of Vehicle Expense

DRA addresses Vehicle Costs and Allocation of Vehicle Expense in its Opening Brief beginning at page 82 and above in this Reply Brief in the Introduction.

3.9. T&D Expenses – Clearing Accounts

DRA addresses SCE's Internal Market Mechanism (IMM) charges in connection with SCE's transmission operations (FERC Account 566.300) in its Opening Brief at p. 69. DRA's discussion of SCE's IMM charges in connection with SCE's distribution operations (FERC Account 580.200) is in its Opening Brief at page 45.

In SCE's Opening Brief, in connection with FERC Account 580.200, IMM Distribution Operations and Engineering, SCE says that DRA fails to consider "[t]he facility and operation and maintenance costs for new facilities."⁸⁹ SCE is mistaken.

As DRA pointed out in its testimony, in SCE's TY 2006 GRC, SCE was authorized \$11.441 million for sub-account 566.300, an increase of \$1.3 million "...related to increased maintenance of older facilities as well as to additional facilities and related maintenance due to SCE's increasing workforce."⁹⁰

In this GRC, SCE makes the same arguments to justify yet another increase in both FERC sub-accounts 566.300 and 580.200. In connection with FERC sub-account 580.200, DRA asked SCE to provide a detailed breakdown of the Corporate Real Estate facility operations

⁸⁹ SCE Opening Brief, p. 74.

⁹⁰ D.06-05-016, p. 68. Of that \$11.441 million authorized by the Commission and paid for by ratepayers, SCE spent only \$9.071 million in 2006. (Ex DRA-05, p. 36).

and maintenance costs that related to the specific costs SCE claimed would increase by \$2.414 million. SCE's response was that it did not have a breakdown of the costs and that its forecast was 2006 expenses "...plus incremental adjustments."²¹

SCE has not substantiated its generalizations about increasing facilities costs, nor has it shown that its spending levels in 2006 will be insufficient to address its expenses in the test year. DRA continues to recommend that SCE's requested increase for FERC sub-accounts 580.200 and 566.300 be denied.

3.10. T&D Expenses – Research, Development & Demonstration

DRA addresses Research, Development & Demonstration in its Opening Brief beginning at page 45.²²

In SCE's Opening Brief, in connection with FERC Account 580.500, SCE says that "DRA's cost /benefit analysis expectations are unrealistic" for RD&D projects.²³ A cost benefit analysis is not just DRA's expectation, it is also the Commission's, according to the last SCE GRC decision.

In SCE's last GRC, SCE asked for an increase of 259% over the last recorded year for FERC sub-account 580.500. The Commission denied that request saying that it was not convinced that SCE's requested increase was reasonable or necessary.²⁴

In its last GRC, SCE also made a similarly unsupported request for "advanced technology projects." In that GRC, as it does here, SCE offered only cost information, saying that the benefits/ savings associated with the projects were unknown and that, in fact, "cost benefits/ savings estimates are typically developed as a result of (not prior to) these types of programs."²⁵

²¹ Ex. DRA-05, p. 82, footnote 231.

²² DRA discovered after filing its Opening Brief, that its discussion on page 47, line 2 erroneously described SCE's request as a 246% increase over 2006 authorized levels. SCE's request is for a **264% increase** over 2006 levels.

²³ SCE Opening Brief, p. 77.

²⁴ D.06-05-016, p. 80.

²⁵ D.06-05-016, pp 63-64.

The Commission rejected the argument in TY 2006 in connection with FERC sub-account 560.100. It should reject that argument for the same reasons in this GRC for sub-accounts 560.100, 580.100 and 580.500. As the Commission said in the TY 2006 GRC decision:

The descriptions of the potential benefits of the projects provide general information but there is not sufficient information to determine whether the costs are justified in either the short or long term. With this type of analysis and showing it is possible to explicitly include associated costs in rates, but it is not possible to explicitly reflect any of the associated benefits or savings, whatever they may ultimately be, in rates for this rate case cycle. This imbalance is troubling. In general, it is our obligation to consider both the costs, and if applicable, the benefits/ savings of utility proposals. If the benefits/ savings are ultimately small when compared to costs, the proposal should probably not be implemented or included in rates.²⁶

The same is true here. The Commission should adopt DRA's recommendation of \$2.136 million for the test year which is an increase of \$536,000 over SCE's 2006 authorized funding.²⁷

3.11. T&D Expenses – Other Operating Revenue

DRA addresses T&D Expenses – Other Operating Revenue in its Opening Brief beginning at page 118.

4. Customer Service Expenses

DRA discusses Customer Service Expenses in its Opening Brief at pages 84 – 119.

4.1. Customer Service Expenses – Operations

DRA discusses Customer Service Expenses – Operations in its Opening Brief at pages 85- 107.

4.2. Customer Service Expenses – Information Delivery

DRA discusses Customer Service Expenses – Information Delivery in its Opening Brief at pages 107- 114.

²⁶ Id.

²⁷ Ex. DRA-05, p. 86.

4.3. Customer Service Expenses – Service Fees

DRA discusses Customer Service Expenses – Service Fees in its Opening Brief at pages 114 – 118.

4.4. Customer Service Expenses – Other Operating Revenue

DRA discusses Customer Service Expenses – Other Operating Revenue in its Opening Brief at pages 115- 118.

4.5. Customer Service Expenses – Consistency and Overlap with Expenses Included in Advanced Metering Infrastructure (AMI)

DRA has no comment on this issue at this time.

5. Information Technology Expenses

5.1. Information Technology Expenses –

5.1.1. FERC Account 923 -- Computing Services

In its Opening Brief, SCE paraphrases the testimony of a DRA witness and says that “DRA’s witness conceded, however, that he did not know whether there was more than the one error in SCE’s forecast that SCE identified and corrected and that he failed to conduct any independent analysis to substantiate his position.”⁹⁸ This summary is incomplete.

DRA’s witness’ testimony was that he asked SCE to check certain inconsistencies in SCE’s list of cost items, and SCE’s response was not clear:⁹⁹

Q: Does the Note No. 1 below the table make it more clear when SCE states that the 940,000 in 2008, and then also in 2009, reflect the fee charged by IBM each year for turning on one additional processor in 2008 and again in 2009?

A: That is what they charge for the year; but there, still, I don’t know the breakdown. Because in either the testimony or the data response I couldn’t remember exactly where there was some statement about, you know, some software upgrades mixed in with maintenance. So I did not get a separation as to how much it is actually paying for the software, how much of it is actually yearly annual maintenance. And if it is buying the software, I would have

⁹⁸ SCE Opening Brief, p. 90.

⁹⁹ Ex. DRA-16, pp. 5-6; 12 RT 1195, K. Lee/ DRA.

question as to whether or not you need to pay it next year. So in that sense, I was kind of looking at that, that there could be some discrepancies in there.

Q: Did you do any independent analysis outside of analyzing SCE's prepared testimony regarding what you think the correct charges would be?

A: I did not get that level of detail from SCE.¹⁰⁰

DRA does not agree that SCE's forecast had only one error. DRA continues to recommend that the Commission adopt \$14.086 million for this Account.

5.1.2. FERC Account 920/921 – Computing Services

In its Opening Brief, SCE says that DRA's removal of a 20% contingency from SCE's Data Center Relocation Project should be rejected because, "...DRA Witness Lee admitted that such a contingency was indeed industry practice for large projects with uncertainties, and did not fully understand the scope of the project or the risks SCE faces."¹⁰¹ Once again, DRA disputes SCE's summary of the testimony.

DRA agreed that contingency costs are a standard industry practice for some functions, but not that it "...would apply to the task at hand."¹⁰² DRA understands the scope of the project, but disagrees with SCE's characterization of the risks. The building will perform the same function; there is nothing "really new or innovative about that."¹⁰³ DRA continues to recommend the contingency be removed.

SCE also says that DRA's recommendation to remove \$1.3 million from Computer Services 920/921 for the 13 employees who were transferred out of the department should be rejected because it is "...unreasonable to reduce the "Computing Services" portion of 920/921 without correspondingly increasing the other 920/921 subaccounts." SCE has not shown that it is not already recovering the amount in another department. DRA, therefore, continues to recommend that the \$1.3 million be removed from this Account.

¹⁰⁰ 12 RT 1195-1196, K. Lee/ DRA.

¹⁰¹ SCE Opening Brief, p. 90.

¹⁰² 12 RT 1198: 20-24, K. Lee/ DRA.

¹⁰³ 12 RT 1198: 14-16; K. Lee/ DRA.

5.2. Information Technology Expenses – NERC-CIP

FERC Account 920/921 (Salaries, Office Supplies and Expenses)

In its Opening Brief, SCE says that in 2007, it hired only 6 of the 14 FTEs it anticipated hiring. Although SCE hired a total of 17 employees in 2007, 11 of those were contract employees.¹⁰⁴

FERC Account 920/921 is for salaries and expenses for SCE employees, not for contract employees. DRA's recommendation appropriately removes \$0.920 million from this account.

6. Administrative and General Expenses

DRA addresses Administrative and General expenses in its Opening Brief beginning at page 123.

6.1. A&G Expenses – Total Compensation Study

DRA addresses Total Compensation Study in its Opening Brief beginning at page 123.

6.2. A&G Expenses – Results Sharing

DRA addresses Results Sharing in its Opening Brief beginning at page 125.

In its Opening Brief, SCE makes a number of fallacious arguments regarding SCE's Results Sharing program and DRA's opposition to it. While DRA opposes SCE's Results Sharing program, it does not oppose all incentive programs¹⁰⁵, DRA merely opposes programs that provide incentives for fraud or are based on fraudulently obtained data.

SCE states that the PBR proceeding does not support DRA's opposition to SCE's Results Sharing program.¹⁰⁶ In support of SCE's statement, SCE quotes extensively from SCE's CEO Al Fohrer's rebuttal testimony in which Mr. Forher states that "SCE's evidence in the PBR proceeding demonstrates that problems identified in the investigation did not affect PBR results and therefore could not possibly have 'tainted' Results Sharing".¹⁰⁷ Mr. Forher can declaim all he wants, but since when does one go to the fox to find out whether he was the one who ate the

¹⁰⁴ SCE Opening Brief, p. 91.

¹⁰⁵ As DRA stated in its Opening Brief, DRA "recommended 50/ 50 ratepayer/shareholder funding of the incentive compensation programs for the Sempra utilities. DRA also proposed that the same sharing be applied to similar PG&E programs."

¹⁰⁶ See SCE Opening Brief, p. 96

¹⁰⁷ Id at 97.

chicken? DRA did not rely on its witness' PBR testimony or evidence. DRA did not rely on CPSD's testimony or evidence. DRA relied on the ALJ's findings that Results Sharing was "fraudulently tainted by improper achievements in customer satisfaction and health and safety. Without the fraud, the payouts would have been lower and the authorization adopted in the GRC would have been different."¹⁰⁸

SCE's argument that its Total Compensation package is reasonable and thus ratepayers should continue to fund its Results Sharing program is a red herring. Simply because DRA opposes ratepayer funding for SCE's Results Sharing program does not mean that DRA opposes SCE shareholder funding for its Results Sharing program; especially when shareholders benefit from the program.¹⁰⁹ (For example, having employees meet budgets means that SCE's overall revenues increase). It is exactly for this reason that the Commission imposed the Results Sharing memorandum account on SCE; a program that provides employee incentives that provide shareholder value without the commensurate shareholder costs.¹¹⁰ Consequently, if SCE were so concerned that without ratepayer funding its Total Compensation would dip below the line of reasonableness, SCE's shareholders could fund the "shortfall".

For the foregoing reasons, and the reasons laid out in DRA's Opening Brief and its testimony, SCE has failed to meet its burden of proof and the Commission should deny ratepayer funding for SCE's Results Sharing program.

6.3. A&G Expenses – Spot Bonuses and ACE Awards

DRA addresses Spot Bonuses and ACE awards in its Opening Brief beginning at page 128. DRA discovered after filing its Opening Brief, that footnote 638 erroneously entitles D.04-07-022, "Re PG&E." This was actually an SCE GRC decision and the correct title is Opinion on Base Revenue Requirement and Other Phase 1 Issues.

In that TY 2003 GRC, SCE maintained, as it does here, that "employee awards and recognition programs foster continuous improvement and achievement of long-term objectives,

¹⁰⁸ Ex DRA-9, p. 39.

¹⁰⁹ Moreover, if Results Sharing were shareholder funded, SCE would be greatly incented to avoid the fraudulent manipulation of data as it would be shareholder money on the line, not ratepayer money.

¹¹⁰ *Re Southern California Edison Co.*, D.06-05-016, § 15.1.4, (*mimeo*) p. 132.

and create an environment of valued contribution that promotes employee retention.”¹¹¹ In the decision on that GRC, the Commission found SCE’s justification for these expenses “unconvincing.”¹¹²

Consistent with that Commission decision and others making similar disallowances, DRA continues to recommend that Spot Bonus and ACE Award expenses be excluded from ratepayer funding in this GRC.

6.4. A&G Expenses – Executive Compensation

DRA addresses Executive Compensation in its Opening Brief beginning at page 129.

6.4.1. Overall Compensation Levels

DRA addresses Overall Compensation Levels in its Opening Brief at page 131.

6.4.2. Executive Officers’ Annual Incentives

DRA discusses Executive Officers’ Annual Incentives in its Opening Brief beginning at page 131.

6.4.3. Stock Options and Other Long-Term Incentive Programs

DRA addresses Stock Options and Other Long Term Incentive Programs in its Opening Brief beginning at page 133.

In SCE’s Opening Brief, SCE says that “... the Commission has recognized in past rate case decisions that as long as a company’s total compensation levels are appropriate, it will not dictate how such company distributes compensation among various types of employment benefits.” SCE cites to a 1997 Commission decision that allowed SoCalGas to recover for stock options because SoCalGas’ total compensation was not above market levels.¹¹³

In light of this 1997 decision, DRA’s assumption in its Opening Brief that ratepayers had never before been required to pay for stock options was incorrect.¹¹⁴ Nonetheless, DRA continues to recommend that the Commission not allow recovery of stock options in this GRC.

¹¹¹ D.04-07-022, as modified by D.05-04-037, p. 173.

¹¹² Id.

¹¹³ SCE Opening Brief, p. 101, citing D.97-07-054.

¹¹⁴ DRA Opening Brief, pp. 124, 133.

As DRA noted in its Opening Brief, in SCE's last GRC, the Commission did not end its inquiry into the reasonableness of Executive Compensation simply because the Total Compensation Study found SCE's overall compensation to all employees statistically at market.¹¹⁵ The Commission should not do so in this GRC either. Instead, the Commission should consider whether or not stock options and other long-term incentive programs provide direct or identifiable benefit to ratepayers.

SCE's stock options benefit only a small group of already highly compensated employees and SCE's shareholders. They provide no direct or identifiable benefit to ratepayers. DRA recommends that SCE's ratepayers not be burdened with these additional costs.

6.5. A&G Expenses – Board of Directors and Corporate Governance

DRA has no comment on this issue at this time.

6.6. A&G Expenses – Human Resources Department Expenses

DRA addresses Human Resources Department Expenses in its Opening Brief beginning at page 135.

In SCE's Opening Brief, as in its testimony, SCE asks for \$17.7 million for Accounts 920 and 921, an increase of \$4.8 million over recorded 2006 costs. DRA recommends the Commission adopt an expense level of \$13.02 million¹¹⁶ for the test year.

In its Opening Brief, SCE says that "DRA and TURN ignore the reality of higher employee turnover rates and the system growth and infrastructure replacement driven manpower needs currently being experienced as well as forecast for 2009 and beyond."¹¹⁷ DRA disputes SCE's conclusions that its arguments represent "reality." DRA considers SCE's testimony about higher employee turnover rates to be conclusory, and has very different views on "system growth and infrastructure replacement driven replacement needs currently being experienced as well as forecast for 2009 and beyond."¹¹⁸

¹¹⁵ D.06-05-016, p. 144.

¹¹⁶ Ex. DRA-09, p. 22, lines 1-3.

¹¹⁷ SCE Opening Brief, p. 104.

¹¹⁸ See Ex. DRA-05, Ex. DRA-13, Ex. DRA-14 and Ex. DRA-15.

In its Opening Brief, SCE also states that “[u]ndisputed evidence established that SCE is on track to increase the size of its workforce by some 2,000 employees over recorded 2006 levels by 2009.”¹¹⁹ DRA is not certain what SCE means by being “on track to increase the size of its workforce by 2,000 employees.” Apparently, the “2,000 employees” count is based on the assumption that everything SCE has asked for in its GRC application is granted.¹²⁰ DRA disputes that assumption.

At the same time, SCE says that it has already filled 1,869 positions in 2008.¹²¹ If SCE has already filled 1,869 positions in 2008 with the rates approved in SCE’s last GRC, then DRA also disputes SCE’s claim of need for increased funding. SCE’s current level of funding should be sufficient to deal with Talent Management needs.¹²²

6.7. A&G Expenses – Pensions and Benefits

DRA addresses Pensions and Benefits in its Opening Brief beginning at page 137.

6.7.1. Pensions and PBOPs

In its Opening Brief, SCE attempts to justify its request for \$52.947 million in pension costs by citing Commission’s approach in D.06-05-016, also used in SCE’s 2006 GRC.¹²³ There, the Commission compared the difference between SCE’s proposals and DRA/ORA’s recommended contribution of zero, to determine whether DRA/ORA’s approach was “sufficiently conservative.”¹²⁴ However, SCE’s reliance on these Commission decisions are inapplicable to the instant case. The underlying principle in those decisions were based on the Employment Retirement Income Security Act of 1974 (ERISA). The most current pension law is the Pension Protection Act of 2006 (PPA). As DRA’s Opening Brief explains, minimum contributions under the PPA should be considered “sufficiently conservative” because it has

¹¹⁹ SCE Opening Brief, p. 104.

¹²⁰ 12 RT 1160-1161, Steudle/SCE.

¹²¹ 12 RT 1162, Steudle/SCE.

¹²² Ex. DRA-09, p. 16.

¹²³ SCE Opening Brief, p. 107.

¹²⁴ D.06-05-016, pp. 172-3, quoting D.04-07-022, pp. 219-20.

higher minimum standards and stronger safety nets than ERISA.¹²⁵ SCE's disagrees: "[T]he old rules were more stringent for adequately-funded plans because they required all expected future benefit payments to be taken into account, not just benefits accrued-to-date."¹²⁶ DRA finds this somewhat true, but definitely misrepresented. Under the old rules, plans were expected to maintain 90 percent of the Present Value of Future Benefits; under PPA, they are required to maintain 100 percent of the total accrued liability plus the year's accumulated liability. PPA also limits the actuarial methods and the interest rate assumptions that can be used in these calculations, and also tightens the smoothing methods that are used to minimize fluctuations from year to year. In other words, the funding requirement under PPA is a plan that must stay fully funded (that is, its assets must equal or exceed its liabilities) whereas under the old rules companies had to "maintain funded status." While there were many methods that could be used to compute that funded status, companies were only expected to maintain 90% of that level.

SCE further states, "The actuary for the Retirement Plan projects minimum required contributions of approximately \$400 million for the 2009 through 2011 GRC projection period under these circumstances."¹²⁷ This is an example of another one of SCE's exaggerated and unsubstantiated forecasts. Since no workpapers were provided to verify or support it, the Commission should reject this calculation.

DRA's Opening Brief fully addresses SCE's arguments regarding the impact of the new federal pension law at pages 137-140.

6.7.1.1. Balancing Account Treatment

SCE's Opening Brief requests balancing-account treatment continue for pension contributions, regardless of whether the Commission authorizes rate recovery for contributions. SCE states, "DRA does not address whether balancing-account treatment should apply if the Commission adopts DRA's recommendation to authorize only minimum required contributions." DRA does not oppose SCE's request for balancing account treatment.

¹²⁵ DRA Opening Brief, p. 138.

¹²⁶ SCE Opening Brief, p. 109.

¹²⁷ SCE Opening Brief, p. 109, citing Ex. SCE-20, Appendix C-1.

6.7.2. Other Benefits

6.7.2.1. Medical Programs

In its Opening Brief, SCE argues DRA made a significant methodological mistake when it reduced its 2008 medical escalation rate from 6.95 percent to a net of zero. SCE argues DRA has in effect double-counted the impact of SCE's plan changes for 2008 by using a mitigated trend rate for 2007-2009 and then further reducing the 2008 rate to zero. DRA disagrees. SCE used an expected trend rate of 10 percent, and the 2008 trend increase is "offset by plan design changes."¹²⁸ DRA fails to see how lowering its recommended 6.95 percent trend rate to zero for the year is any different than SCE lowering its 10 percent trend rate to zero. In fact, if SCE's plan changes reduces its 10 percent trend rate to zero, then DRA's estimate should go *negative* to make up the full amount dollar-wise.

DRA's Opening Brief fully addresses SCE's arguments regarding its medical programs at pages 141-142.

6.7.2.2. Disability

SCE's Opening Brief and rebuttal testimony claims that Comprehensive Disability Plan (CDP) allows SCE to be competitive with other large California employers who provide pay protection from the first day of illness or injury, rather than the eighth day of injury as provided under State Disability Insurance SDI.¹²⁹ SCE also claims CDP is more cost-effective than SDI because it allows SCE to manage disability claims that extend beyond a week. DRA is troubled by this argument, as the only person who should be managing disability claims is the injured employees' doctor, not SCE. Moreover, if the Healthy Families, Healthy Workplaces Act of 2008 (A.B. 2716) passes in California, it will require employers to provide paid sick days for employees who work for seven days or more in a calendar year. If this Act becomes law, SCE's argument that CDP provides pay replacement from the first day of disability as opposed to SDI's eighth day of disability is without merit. All employees in California would have that protection.

DRA's Opening Brief fully addresses SCE's arguments regarding its disability programs at pages 142-143.

¹²⁸ Ex. SCE-06B, p. 58.

¹²⁹ SCE Opening Brief, p. 112.

6.7.2.3. Miscellaneous Benefits

DRA's Opening Brief fully addresses SCE's arguments regarding miscellaneous benefits, including Health Resources, Work Life Initiatives, and Environmental Affairs – Miscellaneous Cancelled, at pages 143-144.

6.8. A&G Expenses – Law Department

DRA addresses A&G Expenses – Law Department in its Opening Brief beginning at page 144.

In SCE's Opening Brief, SCE says that it "...identified over 150 currently active or pending regulatory matters" to support its request for 31 "incremental Law Department FTEs included in [SCE's] forecast."¹³⁰ Merely enumerating a list of "matters" does not show that actual workload is increasing.

With no time tracking system in place, SCE has not shown any tie between the list of 150 matters and its purported need for 31 incremental FTEs. Since it is impossible to verify SCE's claims that its current staffing levels are insufficient to meet its workload, DRA recommends that SCE's proposed increases be denied.

6.9. A&G Expenses – Claims

DRA addresses A&G Expenses – Claims, in its Opening Brief beginning at page 148.

6.10. A&G Expenses – Workers Compensation

DRA addresses A&G Expenses – Workers Compensation in its Opening Brief, beginning at page 149.

6.11. A&G Expenses – Ethics and Compliance

DRA addresses A&G Expenses – Ethics and Compliance in its Opening Brief beginning at page 152.

6.12. A&G Expenses – Regulatory Policy and Affairs

DRA addresses A&G Expenses – Regulatory Policy and Affairs in its Opening Brief beginning at page 153.

¹³⁰ SCE Opening Brief, p. 116.

6.13. A&G Expenses – Financial Organizations

DRA addresses A&G Expenses – Financial Organizations in its Opening Brief beginning at page 155.

6.14. A&G Expenses – Property and Liability Insurance

DRA addresses A&G Expenses – Property and Liability Insurance in its Opening Brief beginning at page 162.

6.15. A&G Expenses – Corporate Communications

DRA addresses A&G Expenses – Corporate Communications in its Opening Brief beginning at page 164.

6.16. A&G Expenses – Power Procurement

6.16.1. Power Procurement Business Unit

DRA addresses Power Procurement Business Unit expenses in its Opening Brief, beginning at page 165. A discussion of the MRTU Memorandum Account can also be found in DRA’s Opening Brief at pages 296-7.

6.16.2. Risk Control

DRA addresses Risk Control in its Opening Brief beginning at page 158.

6.17. A&G Expenses – Operations Support

DRA addresses A&G Expenses – Operations Support in its Opening Brief beginning at page 168.

7. Depreciation Expenses and Reserve

In addressing DRA’s recommendation to retain current authorized net salvage, SCE’s Opening Brief states, “while accepting lower negative net salvage values now may lower revenue requirements in the near-term, they will undoubtedly cost customers more in the future.”¹³¹ SCE continues, “DRA did not perform *any* analysis to consider the consequence that its proposals would have on customers over the lives of the assets, let alone explain why it is appropriate to set current depreciation rates at inadequate levels and thereby defer costs to future

¹³¹ SCE Opening Brief, p. 146.

customers.”¹³² DRA’s testimony provides a compelling analysis and graphically illustrates that the existing net salvage rates sufficiently fund SCE’s current and future cost of removal.¹³³ DRA maintains that only when an asset has lived its useful life will the true depreciation parameters be known.¹³⁴ DRA’s goal is to ensure that SCE continues to collect enough funds to cover current and future cost of removal in a manner that is fair to its current and future customers. DRA’s recommendation regarding net salvage rates for the test year accomplishes this goal without engaging in a speculative analysis that SCE prefers.

Regarding DRA’s recommendation for additional reporting requirements, SCE’s Opening Brief states, “SCE is not opposed to performing reasonable analyses to provide information if the Commission determines would add value to the depreciation showing.”¹³⁵ As explained in DRA’s Opening Brief at pages 186-187, the Commission already determined this issue in D.07-03-044. In that decision, the Commission concluded that additional reporting requirements are appropriate “as a reasonable projection of ratepayers’ interest in making sure the huge amount of money collected for removal costs is neither spent for that purpose or returned to ratepayers.”¹³⁶ For this reason, DRA’s request is reasonable D.07-03-044 established there was a clear need for such analyses, and by its directive, the requirement is not unduly burdensome.

DRA addresses SCE’s remaining arguments regarding Depreciation in its Opening Brief at pages 176-186.

¹³² SCE Opening Brief, p. 146.

¹³³ Ex. DRA-18, pp. 15-17.

¹³⁴ DRA Opening Brief, p. 179.

¹³⁵ SCE Opening Brief, p. 147.

¹³⁶ D.07-03-044, p. 216.

8. Rate Base – Plant in Service Capital Expenditures

8.1. General Plant in Service Issues

8.2. Generation Capital

8.2.1. Generation Capital – Nuclear Generation

SCE discusses three reductions in capital for SONGS and Palo Verde included in DRA's Results of Operations (RO) model.¹³⁷ One reduction is for \$5.9 million for 2007 related to SONGS, while the other two reductions are related to Palo Verde for \$3.1 million in 2007 and \$0.9 million in 2010. The SONGS reduction for \$5.9 million in 2007 is how DRA executed a reduction to reflect a \$5.9 million difference between SCE's forecast 2007 and actual capital expenditures. DRA informed SCE of this in a data response.¹³⁸ The Palo Verde related reduction of \$3.1 million in 2007 is how DRA executed a reduction to reflect a \$3.1 million difference between SCE's forecast 2007 and actual capital expenditures. DRA informed SCE of this in a data response.¹³⁹ The Palo Verde reduction of \$0.9 million in 2010 appears to be an error on DRA's part. DRA informed SCE of this in a data response.¹⁴⁰

SCE's Brief does not address the fact that SCE has deferred \$34.3 million in SONGS capital expenditures, as discussed in DRA's testimony.¹⁴¹ DRA is skeptical that SCE will execute its proposed capital expenditures as scheduled, and the Commission should tell SCE it needs to become more realistic about its capital expenditure scheduling.

8.2.2. Four Corners Unallocated Future Reliability Projects and Mohave Decommissioning Contingency

SCE opposes DRA's recommendation to eliminate \$6 million in 2009 for Four Corners Unallocated Future Reliability Projects and \$12.8 million for the 30 percent contingency for Mohave decommissioning.¹⁴² DRA opposed the \$6 million Four Corners Unallocated Future

¹³⁷ SCE Brief at 148-149.

¹³⁸ DRA response to SCE data request SCE-DRA-037-GEN (Revised, 2nd Revision), Q.1a.

¹³⁹ DRA response to SCE data request SCE-DRA-037-GEN (Revised, 2nd Revision), Q.2a.

¹⁴⁰ DRA response to SCE data request SCE-DRA-037-GEN (Revised, 2nd Revision), Q.3a.

¹⁴¹ Exh. DRA-73 at 8-10.

¹⁴² SCE Brief at 149-150.

Reliability Projects item because it is essentially an unnecessary 10 percent contingency for Four Corners. In response to a DRA data request, SCE said the actual level of unanticipated reliability related capital projects at Four Corners was \$0 for 2007 and \$553,000 for 2008.¹⁴³ Considering how small recent actual unanticipated reliability related capital projects have been at Four Corners, \$6 million for TY 2009 would be overkill. The Commission should reject SCE's request for \$6 million in 2009 for Four Corners Unallocated Future Reliability Projects.

Regarding the \$12.8 million cost for the 30 percent contingency for Mohave decommissioning, there is no reason to include a contingency amount since all Mohave costs will ultimately be reviewed in the Mohave Balancing Account. Removing the 30 percent contingency will shift the risk of cost overruns to SCE and sends a strong message to SCE to manage its costs and be accountable for its forecasts. The Commission should reject SCE's request for \$12.8 million for the 30 percent contingency for Mohave decommissioning.

SCE's brief does not address the conflict between SCE's proposed Four Corners capital expenditures in the GRC and CPUC D.07-01-039, the so-called Emissions Performance Standard (EPS) Decision.¹⁴⁴ According to SCE, the EPS decision may preclude SCE from making additional capital additions at Four Corners absent an exception to the EPS Decision. The Commission needs to clarify its intent on the application of the EPS Decision to Four Corners.

8.2.3. Generation Capital – Hydroelectric Generation

8.2.3.1. Hydro Big Creek Housing Project

SCE opposes DRA's recommendation to reduce SCE's 2009 capital forecast by \$0.44 million to fund new apartments.¹⁴⁵ SCE has agreed to reduce housing refurbishment costs, based on TURN's recommendation.¹⁴⁶ The Commission should also adopt DRA's recommendation: SCE does not need additional apartments since it does not need additional employees.

¹⁴³ SCE response to DRA data request DRA-SCE-119-TXB, Q.6, cited in Exh. DRA-73 at 20.

¹⁴⁴ Exh. DRA-73 at 18-19.

¹⁴⁵ SCE Brief at 151.

¹⁴⁶ Exh. SCE-16, Vol. 4 at 53.

8.2.3.2. Evaluation of the Cost-Effectiveness of SCE's Small Hydro Projects in the Next GRC

SCE opposes DRA recommendation that SCE evaluate the cost-effectiveness of continued investments in its small hydro projects in SCE's next GRC.¹⁴⁷ IAG's Brief raises the possibility that SCE is seeking Commission approval of a \$2.4 million capital addition at the 3.0 Mw Lundy powerplant even though the addition is not required by FERC or the SWRCB.¹⁴⁸ This is the kind of example that brought DRA to the policy position that SCE should evaluate the cost-effectiveness of continued investments in its small hydro projects. Along with Lundy, DRA has questioned capital additions at 0.5 Mw Lytle Creek and 0.32 Mw Ontario 2.¹⁴⁹

8.2.4. Generation Capital – Gas-Fired Generation

DRA has no comment on this issue at this time.

8.2.5. Generation Capital – Other

8.2.5.1. Pebbly Beach Administration Building

SCE opposes DRA's recommendation to eliminate a \$4.9 million capital addition for a new Pebbly Beach Administration building.¹⁵⁰ SCE had been authorized in the 2006 GRC to replace the Administration building at a cost of \$3.055 million, but failed to do so. SCE has been making do with the current Administration building ever since, and should consider spending additional O&M money on renovation, rather than replacement. DRA notes that SCE's cost estimate includes a 25 percent contingency of \$1.6 million, which seems rather steep for an administration building.

¹⁴⁷ SCE Brief at 151.

¹⁴⁸ IAG Brief at 19, 27-28.

¹⁴⁹ Exh. DRA-73 at 24-25.

¹⁵⁰ SCE Brief at 156-157.

8.3. Transmission and Distribution Capital

8.3.1. T&D Capital – Customer Growth

8.3.1.1. Plant Weighting¹⁵¹

On page 148 of SCE's Opening Brief, SCE discusses the issue of the proper weighting of capital additions. SCE argues that, with an unusual capital project excluded, the test year 2009 capital weighting percentage will be 43.57%, and should be adopted by the Commission.

Beginning on page 215 of its Opening Brief (see the Tenth Recommendation), DRA discussed this issue at length. Without extensively repeating itself, DRA would like to point out the following important facts:

- The 43.57% figure quoted by SCE is only reached if all of SCE's original capital projects are approved, and only if all of SCE's forecasted completion dates are used.
- SCE and DRA agree (see Exhibit DRA-86) that the weighting percentage will change depending on the unique set of capital projects and completion dates that are adopted.
- In previous SCE GRC's, the Commission has found that 42.554% is a reasonable weighting percentage.
- SCE is requesting a large revenue requirement increase in this GRC. Ratepayers should not be required to pay any more than they have to; if the weighting percentage is larger than 42.554% (even by a small amount), that weighting percentage should be reduced so that SCE's customers do not pay more than is absolutely necessary.

DRA urges the reader to carefully examine all of the arguments raised by DRA in its Opening Brief. Nothing in SCE's Opening Brief refutes DRA's recommendation. Clearly, the Commission should adopt DRA's recommendation to use a 42.554% weighting factor.

8.3.1.2. Cost Per Meter

Beginning on page 159 of SCE's Opening Brief, SCE discusses the issue of determining a reasonable Cost Per Meter (CPM) for connecting new customers to the grid. SCE argues that overtime (a prime component of increasing CPM costs) is not expected to decline substantially.

¹⁵¹ Section numbers correspond to those in SCE's Opening Brief.

SCE further argues that training for new linemen, increasing material and labor costs, the continued need for backbone installations, and the growth in applicant installations all support SCE's CPM forecasts.

DRA has addressed and refuted each of these issues at length in its Opening Brief beginning on page 203 (see the Second Recommendation). DRA sees no need to repeat all of the refutations to SCE's arguments that were presented in DRA's Opening Brief; the reader is urged to refer to DRA's Opening Brief to obtain a complete discussion of DRA's analyses.

In its Opening Brief, SCE does present one new piece of information. SCE aggregates all of the CPM amounts for the Residential, Agricultural, and the Commercial/Industrial categories, and derives a composite recorded 2007 CPM figure. SCE then states that this recorded composite figure is higher than the forecasted amount, despite the fact that meter sets are declining.

DRA's CPM recommendation is restricted to Residential connections. On page 205 of its Opening Brief, DRA provides an SCE quote that states that a 7% increase in Residential meter sets resulted in a 17% increase in the Residential CPM, largely due to overtime. By presenting an aggregated CPM amount, DRA cannot separately analyze that figure to determine the impact on Residential CPM levels. However, even if such an analysis was possible, it would likely be meaningless. The discussion in SCE's Rebuttal Testimony¹⁵² leads DRA to believe that work other than that associated with new service connections is being included when overtime levels are analyzed by SCE. Even in its Opening Brief, SCE states that:

“Overtime depends on the total amount of work SCE crews have to perform...”¹⁵³

This clearly suggests that work other than CPM-related activities is being included when SCE calculates its overtime. As discussed in DRA's Opening Brief (page 206), the fact that overtime levels will (allegedly) continue at current levels is irrelevant if those overtime hours are caused by working on projects besides customer growth projects. If TDBU crews are working overtime doing “other things,” their salaries should be charged to those “other things,” and not included in the CPM costs. It is extremely important to keep in mind that, as quoted previously,

¹⁵² Ex. SCE-17H1, p. 4, lines 17-18.

¹⁵³ SCE Opening Brief, p. 160, second line of first full paragraph. Emphasis in original.

SCE has admitted that a 7% increase in Residential meter sets resulted in a 17% increase in the CPM, largely due to overtime. SCE has failed to explain why a reduction in Residential meter sets (which SCE has acknowledged) would not result in a reduction in the CPM. DRA's recommended adjustments to Residential CPM levels should be adopted.

8.3.2. T&D Capital – Load Growth

SCE's discussion of Load Growth capital expenditures begins on page 162 of its Opening Brief. In certain respects, the testimony on this issue has become a case of "dueling experts." Because of the large dollar request, the volume of workpapers, and the technical nature of the subject matter, DRA retained an outside consultant, R.W. Beck, to analyze this area. In turn, SCE retained Quanta Technology. Both sets of consultants have produced voluminous, highly technical reports. Without a good technical background in the subject area, the casual reader of these reports may find it difficult to grasp the significance of the arguments, which may make it complicated to judge the reasonableness of the various recommendations.

In situations such as this, relying on "common sense" will almost always guide the reader to the correct conclusions. In its testimony, DRA recommended reducing new Residential meter sets by 28% in 2008, and 39% in 2009.¹⁵⁴ As mentioned in Section 8.3.1 of its Opening Brief (page 159), SCE has agreed to revise its meter set forecast to match DRA's, so there is no longer any dispute on this matter. Given the current slowdown in the California economy, and given that SCE now acknowledges that new meter sets are going to be much lower than it originally forecasted, "common sense" would dictate that at least some slowdown in Load Growth capital expenditures would be warranted. However, SCE's consultants are not prepared to recommend any reduction to SCE's proposed capital expenditures; in fact, on page 164 of SCE's Opening Brief, Quanta concludes that "increased expenditures may be warranted." (Emphasis in original) Does "common sense" lead anyone (except SCE) to conclude that Quanta's recommendation is logical? While technical in nature, R.W. Beck's recommendations are clearly more reasonable.

SCE, in its opening brief, makes several claims that are intended to represent "fatal flaws" in R. W. Beck's analysis but are extremely misleading and baseless. Most of these claims are alleged to be supported by the testimony of a witness from Quanta Technology, Inc.

¹⁵⁴ Exhibit DRA-13, p. 21, footnote 21.

(Quanta). However, some of these claims are completely divorced from the Quanta witness' testimony or, in fact, contradicted by it. Many of these statements also reflect the cavalier attitude with which SCE goes about planning for capital expenditures. The bullet points below provide a specific rebuttal to the numbered issues from page 164 of SCE's opening brief, as well as several statements made in subsequent passages.

Claim #1

- **SCE Claim:** SCE claims that a 10-year historical period for developing an assumption regarding normal weather is appropriate for distribution planning purposes¹⁵⁵.
- **DRA Response:** This blanket statement ignores prudent utility practice, which supports such brief periods of analysis only for specific circumstances. Quanta's testimony on SCE's behalf briefly outlines these circumstances but does not provide a foundation that these circumstances are at play in SCE's service area or any support whatsoever for SCE's use of such a brief period. One statement by Quanta's witness in particular is telling—"Ten years is the shortest period I have seen used in weather adjustment."¹⁵⁶ Given the length and scope of the experience of Quanta's witness, this is not particularly supportive of the statement in SCE's Opening Brief, which suggests that SCE's practices are reflective of a world class utility. Quanta's analysis shows that the use of such a short averaging period as the basis for "normal weather" causes the resulting estimate to vary by as much as +/- 6%¹⁵⁷, roughly equal to the entire amount of SCE's weather adjustment between normal weather and 1-in-10 year weather.

Claim #2

- **SCE Claim:** SCE claims that its use of an upward load adjustment to reflect potential load growth to the last potential day of summer, September 15th, is appropriate.

¹⁵⁵ SCE Opening Brief; page 164.

¹⁵⁶ SCE-17, Vol. 4-C 2009 GRC Rebuttal Testimony, page 14, lines 9-10.

¹⁵⁷ Ibid, page 16; conservatively assumes a base temperature of 100 degrees Fahrenheit, significantly below typical peak day temperatures in the Inland region.

- **DRA Response:** The fact that the peak demand has occurred in late August or early September at some time in the past is not adequate support for such a blanket assumption that every point on SCE's system will peak at the latest possible point in the summer. This is a highly unlikely circumstance and, when combined with the 1-in-10 year weather conditions, represents an exceedingly unlikely event and an overly conservative assumption. This is particularly true given that the growth assumed to take place from the timing of the actual peak to the end of the summer is based on very recent historical growth, which has been inflated by the boom in housing development that has come to an abrupt halt.

Claim #3

- **SCE Claim:** SCE claims that, because SCE under-forecasted its peak demand growth in 2006, it was "unable to design the system to criteria" over 2006-2011.
- **DRA Response:** This claim ignores the sea change that has occurred in the residential development situation, as well as the deterioration of economic activity in SCE's service territory. In addition, the housing downturn is being exacerbated by an unprecedented wave of foreclosures, as well as a tightening of credit and a significant increase in mortgage rates. These are all conditions very different from the circumstances evident in 2005-2006.

Claim #4

- **SCE Claim:** SCE claims that despite the fact that the Sub-system Forecast is significantly outdated, it is still appropriate to rely on for purposes of the 2009 GRC, because "annual plans are common industry practice."¹⁵⁸
- **DRA Response:** It is clear to everyone that electric industry planning efforts typically involve a lag between the timing of any forecast and ultimate implementation of such plans. However, the philosophy that such plans should be followed regardless of the conditions that have unfolded since the time of the forecast is ludicrous. SCE also makes an irrelevant allusion to the distribution system planning process being a bottom-up approach without elaborating on its point.¹⁵⁹ These statements belie the sensibility of re-evaluating plans given new information of significant magnitude, as recent events in the housing market and development

¹⁵⁸ SCE Opening Brief, page 164.

¹⁵⁹ SCE Opening Brief, page 164.

climate must be viewed. It would be financial suicide for a housing developer to move forward with plans for a 2,000 unit luxury home development in Southern California or Miami, Florida without due consideration of market conditions up to the last possible moment before committing funds; similarly, SCE's blind faith in a nearly two year old forecast would cause significant capital expenditures that will not be needed on the same time scale or, worse, in the same area or for the same equipment as they are expended.

Claim #5

- **SCE Claim:** SCE's Opening Brief briefly echoed the Quanta witness' attempt to discredit R. W. Beck's analysis that compared SCE's Sub-system Forecast to its System Forecast¹⁶⁰ and drew the conclusion that the former reflected significantly higher growth than the latter. Quanta's witness claimed that the two forecasts are not comparable as a result of a variety of factors that may potentially cause the forecasts to be different.
- **DRA Response:** SCE's System Forecast is based on an econometric method, while SCE's Sub-system Forecast is based on engineering estimates of the load to serve permitted and planned housing and other developments. While the exact numerical results of these forecasts, in terms of the rate of forecast growth, may be different, they should be similar, as they are both reflective of the same phenomenon—customer growth. It is common practice in the utility industry to utilize forecast information developed using econometric techniques as a starting point for, or at the very least, as a benchmark to spatial load forecasts developed for distribution planning. In the event that the two different forecasting techniques yield considerably different results, it is incumbent on the planning analysts to re-examine assumptions and sources of data. In this case, that effort would include scrutiny of the physical and financial state of planned developments and the overall economy, which would inevitably lead any reasonable person to conclude that the Sub-system Forecast is considerably optimistic.

Claim #6

- **SCE Claim:** SCE claims that "increased expenditures may be warranted."¹⁶¹ This claim is based on the same Quanta analysis discussed above in the DRA Response to Claim #1.

¹⁶⁰ Ibid, page 164.

¹⁶¹ SCE Opening Brief, page 164.

- **DRA Response:** As discussed in DRA’s Opening Brief, it is R. W. Beck’s opinion that Quanta’s analysis is too limited in geographic scope and simplified to support a professional opinion about the potential for the brief averaging period to have a positive or negative impact on projected peak demand appropriate for distribution planning. As importantly, Quanta’s analysis assumes a one-for-one impact of weather patterns on peak demand conditions. This is a vast simplification. For those reasons, this claim should be rejected.

Claim #7

- **SCE Claim:** SCE claims that the minor adjustments R. W. Beck has made to correct certain inconsistencies in SCE’s System Forecast, which was used by R. W. Beck as a benchmark of SCE’s Subsystem Forecast, as discussed above, are inappropriate, not completely understood, or of no consequence.
- **DRA Response:** R. W. Beck agrees that, as SCE suggests, “the difference between the SCE and RWB alternatives appears to have only a minimal impact on the peak demand forecast.”¹⁶² However, it is important to recognize that the result of correcting this inconsistency is a slightly lower System Forecast. The comments in SCE’s Opening Brief and Rebuttal Testimony miss the point altogether and do not detract from the argument impact on the overall analysis.

R. W. Beck’s criticism of SCE’s Sub-system Forecast and the rationale for a significant reduction in the same remain to be challenged in any significant way by SCE’s Rebuttal Testimony or the discussion in its Opening Brief. As discussed in R. W. Beck’s report and DRA’s Opening Brief, SCE’s Sub-system Forecast is based on numerous unsupported assumptions and optimistic development plans and permit data that are significantly out-of-sync with the deluge of negative data regarding local economic activity and development since the timing of its filing. Those responsible for SCE’s Sub-system Forecast instead appear to be so focused on development plans and permit data that they are unable to see the big picture that is evident in its territory. Growth has slowed dramatically, and the growth seen in 2005-2006 is unlikely to be repeated for several years at least.

¹⁶² Ibid, page 166.

8.3.2.1. Purchase/Sale Of Distribution Facilities (BI 365)

Beginning on page 184 of its Opening Brief, SCE discusses the issues surrounding the potential purchase of the distribution systems at eight military bases. SCE agrees that seven of these purchases will not occur until after the 2009 test year. However, it still believes that one purchase will occur in 2008.

In its Opening Brief, DRA discusses this issue beginning on page 209 (see the Sixth Recommendation). As explained in its Opening Brief, this final purchase still has not occurred. DRA's recommendation to eliminate this last purchase, but allow SCE to file an advice letter if the purchase does occur before the end of the test year, protects both SCE and the ratepayers. DRA's recommendation should be adopted.

8.3.2.2. Added Facilities (BI 382)

Beginning on page 184 of its Opening Brief, SCE discusses the issues surrounding the need for upgrade costs associated with the potential purchase of the distribution systems at eight military bases. SCE agrees that seven of these purchases will not occur until after the 2009 test year. However, it still believes that one purchase will occur in 2008. Therefore, SCE still seeks funding for the upgrade costs associated with this last military acquisition.

In its Opening Brief, DRA discusses this issue beginning on page 210 (see the Seventh Recommendation). As explained in its Opening Brief, the final military base purchase still has not occurred; therefore, the upgrade costs associated with that last purchase still have not occurred. Analogous to the previous section, DRA is recommending that all of the upgrade costs be eliminated, but that SCE be allowed to file an advice letter to capture these costs if the final purchase occurs before the end of the test year. This recommendation protects both SCE and the ratepayers. DRA's recommendation should be adopted.

8.3.2.3. Capital - Rule 20 Conversions

SCE discusses Rule 20A line conversions on page 185 of its Opening Brief. SCE presents a list of seven reasons why its original forecasts for these capital expenditures are reasonable.

Beginning on page 211 of its Opening Brief (see the Eighth Recommendation), DRA has addressed and refuted each of these seven allegations at length. Without extensively repeating itself, DRA would like to point out the following important facts:

- In Exhibit DRA-13, page 27, line 10, this excerpt from an annual undergrounding report to the Commission shows that over the period 1968 through 2006, SCE has spent \$175.1 million less than its allocations.
- Table 13-4 on page 28 of Exhibit DRA-13 shows that not only is the trend of Authorized expenditures exceeding Actual expenditures continuing, the excess appears to be increasing; the amount in line 3 is getting larger as the years progress.

DRA believes that these figures show that SCE continually overstates the amount of Rule 20A funding it estimates it will spend each year. In DRA's judgment, this is even more likely to occur in today's economic slowdown. DRA urges the reader to carefully examine all of the arguments raised by DRA in its Opening Brief. Nothing in SCE's Opening Brief refutes DRA's Rule 20A recommendation.

8.3.3. T&D Capital – Distribution Infrastructure Replacements

DRA discusses T&D Capital, Distribution Infrastructure Replacements in its Opening Brief at pages 226- 244.

8.3.3.1. Worst Circuit Rehabilitation -- Budget Item 481

In testimony and in its Opening Brief, SCE seeks \$10.8 million to rehabilitate 29 “worst circuits” in 2008, and \$21 million to rehabilitate 40 “worst circuits” in 2009. DRA recommends \$5.17 million in 2008 and \$5.295 million in 2009 for this program based on SCE's recorded data.

In its Opening Brief, SCE says, “[k]ey to the need for this program is the fact that half of our system unreliability comes from only 300 circuits. Rehabilitating the worst 200 of that 300 is eminently reasonable. DRA's proposed funding for 15 circuits each year translates to the absurd rehabilitation rate of once every 280 years.”¹⁶³

SCE apparently comes to this conclusion by comparing DRA's recommendation to rehabilitate 15 of SCE's “worst circuits” to the entire number of circuits in SCE's system, 4,300,¹⁶⁴ rather than the number of “worst circuits” which only consists of 300. SCE's inapposite comparison does not address the evidence that the number of “worst circuits” SCE has

¹⁶³ SCE's Opening Brief, p. 175.

¹⁶⁴ Ex. sCE-17H1, p. 54.

rehabilitated fluctuates widely from year to year, and that SCE did not provide any verifiable data for its forecasts. DRA continues to recommend the Commission reject SCE's forecast and adopt \$5.17 million for 2008 and \$5.295 million for 2009.

8.3.4. T&D Capital – Substation Infrastructure Replacement

DRA discusses T&D Capital, Substation Infrastructure Replacement in its Opening Brief at pages 247-259.

8.3.5. T&D Capital – RIIM

DRA discusses T&D Capital, RIIM in its Opening Brief at page 259.

8.3.6. T&D Capital – Operational Technology

DRA discusses T&D Capital, Operational Technology, in its Opening Brief at pages 260-270.

8.4. Customer Service Capital

DRA addresses Customer Service Capital in its Opening Brief, beginning at page 270.

8.5. Information Technology and Enterprise Resource Planning Capital

DRA addresses Information Technology and Enterprise Resource Planning Capital in its Opening Brief, beginning at page 275.

SCE has alerted DRA to three errors in DRA's Opening Brief which DRA wishes to correct. The first two have to do with the stipulation between SCE and DRA discussed in Section 8.5 of DRA's Opening Brief. The stipulated amount should be \$25.2 million (rather than the \$25.1 million¹⁶⁵ in DRA's Brief). The second is that the list of the remaining issues in dispute should also include NERC CIP. For NERC CIP capital, DRA recommends \$52,000 for 2007. DRA's recommendation is based on SCE's actual 2007 spending.

The third error is in Section 8.5.2 of DRA's Opening Brief, relating to Identity Management. DRA's recommendation is for \$2 million for this project in the test year, rather than the \$0 stated in the Opening Brief.¹⁶⁶

¹⁶⁵ See DRA Opening Brief, p. 275.

¹⁶⁶ See DRA Opening Brief, p. 276.

8.6. Operations Support Capital – Corporate Real Estate

DRA addresses Operations Support Capital – Corporate Real Estate in its Opening Brief beginning at page 277.

9. Rate Base – Other than Plant in Service

DRA addresses Rate Base – Other than Plant in Service in its Opening Brief beginning at page 285.

9.1. Mountainview Investment/Emission Credits and Legal Costs

SCE opposes DRA’s recommendation to remove \$13.8 million in emission credits from rate base.¹⁶⁷ SCE acquired the Mountainview emission credits are part of the cost of acquiring Mountainview, but the credits were actually provided by the South Coast Air Quality Management District (SCAQMD). Since SCE did not pay directly for the emission credits, they should not be included in rate base.

SCE also opposes DRA’s recommendation to remove \$2.4 million in legal costs associated with the Mountainview acquisition from rate base.¹⁶⁸ DRA opposes the inclusion of the legal costs in rate base since they are not long-lived assets and should more properly be expensed. SCE has not cited a Commission decision that supports capitalizing the legal costs associated with acquisition. The Commission should require SCE to expense the legal costs associated with the acquisition of Mountainview.

10. Market Redesign and Technology Upgrade (MRTU)

DRA addresses MRTU in its Opening Brief, beginning at page 296.

In SCE’s Opening Brief, SCE says that “DRA does not dispute the reasonableness of SCE’s [MRTU] forecast.”¹⁶⁹ Actually, DRA considers the inclusion of any MRTU forecasts in this GRC to be unreasonable, and recommends they all be removed.¹⁷⁰

¹⁶⁷ SCE Brief at 211.

¹⁶⁸ SCE Brief at 211.

¹⁶⁹ SCE Opening Brief, p. 130.

¹⁷⁰ Ex. DRA-17, pp. 8-9.

11. Distribution Service Request Pricing (DSRP)

The issue is not whether SCE's DSRP program is currently used and useful, but whether SCE should have put it into rates when it did. The simple answer is no. Since day one, the DSRP program has failed to achieve its main purpose: to price correctly; and it is of utmost importance to note that SCE does not deny this. Instead, SCE aims to deflect from this by trying to show that the program is **now** used and useful.¹⁷¹

SCE finds fault with DRA's reliance on two current SCE employees who were subject matter experts (SMEs) on the DSRP team. Both these employees came forward with information that the DSRP program was not working and had not been working since its implementation.¹⁷² Neither one of these employees has anything to gain by calling into question the efficacy and value of the DSRP program. As SMEs, they were simply doing what they were paid to do: report on problems with the program.¹⁷³

SCE now attacks its own subject matter experts and DRA's reliance on them by claiming that DRA ignored applicable accounting rules and statements made by other SCE employees.¹⁷⁴ This is simply not the case.

The accounting rules cited by SCE require that the software be "substantially complete and ready for its intended use" before it can be used and useful.¹⁷⁵ Software, whose main purpose is to price jobs¹⁷⁶ cannot be substantially complete and ready for its intended use if said software cannot price correctly. Such is anathema to the rule.

Moreover, DRA did not ignore statements of SCE employees who sang the praises of the DSRP program; DRA simply gave them the weight they should be accorded. SCE's statements

¹⁷¹ Even if the issue was whether or not DSRP is used and useful, SCE has failed to meet its burden of proof because, as of the hearing dates, the DSRP program was still failing to price correctly.

¹⁷² Ex. DRA-23A.

¹⁷³ As noted in DRA-23A and DRA's Opening Brief pp. 297-299.

¹⁷⁴ SCE Opening Brief p. 218.

¹⁷⁵ Ex. SCE-25, p. 25:19-21.

¹⁷⁶ Deposition of Ruth Nelson, p. 7:8-11. Also see 12(2) RT 1102:20, witness/ SCE: DSRP "is all about pricing."

regarding DSRP are self-serving and should be accorded little weight.¹⁷⁷ SCE tries to bolster these self-serving comments by pointing to an alleged independent report commissioned by SCE to assess the DSRP program. However, this report should also be accorded little weight as the authors of the report failed to even interview either Mr. Auchard or Mr. Kermin, the two subject matter experts who provided information to DRA that demonstrated that the DSRP program did not (and still does not) price correctly.¹⁷⁸

SCE's attempt to include the costs of this program in rates should be denied. DRA recommends that all money associated with the DSRP program be removed from rates.

12. SDG&E's Request for SONGS Cost Recovery

DRA has no comment on this issue at this time.

13. Non-Tariffed Products and Services

DRA has no comment on this issue at this time.

14. Post-Test Year Ratemaking

DRA addresses SCE's arguments regarding Post-Test Year Ratemaking in its Opening Brief at pages 301- 310.

15. Ratemaking Proposals

DRA has no comment on this issue at this time.

16. Kilowatt-hour Sales and Customer Forecasts

In its Opening Brief, SCE argues that, "[b]ecause DRA inconsistently updates the new meter forecast and the customer forecast, but not the sales forecasts, the nonsensical result is that DRA forecasts fewer customers and fewer meters in 2009, yet more electric sales."¹⁷⁹

DRA and SCE model sales in essentially the same manner using models based on annual per customer and customer projections. DRA derived both its sales and customer estimates from 12 years of monthly data through August 2007. The minor difference of 1.27%¹⁸⁰ in DRA's and

¹⁷⁷ Especially in light of the fact that nearly most of SCE's employees feel that they cannot report unethical behavior without fear of retaliation (see DRA- 61 pp. 7).

¹⁷⁸ See Ex. SCE-25, p.A-26, for the list of employees interviewed.

¹⁷⁹ SCE Opening Brief, p. 231.

¹⁸⁰ Ex. DRA-03, p. 1.

SCE's sales forecasts is essentially attributable to differences in model specification related to the conservation variable.

Contrary to SCE's argument, DRA's recommendations are consistent in that DRA uses the most current actual data for sales, customers and meters. DRA's recommendations should be adopted.

17. Philanthropy

DRA has no comment on this issue at this time.

18. Supplier Diversity

DRA has no comment on this issue at this time.

19. Workforce Diversity

DRA has no comment on this issue at this time.

20. Escalation Rates

DRA addresses this issue in its Opening Brief at page 305.

21. Taxes

In its Opening Brief, SCE essentially re-states its flawed argument regarding its failure to make the required distinction between entertainment-related and business-related expenses. SCE correctly concedes that ensuring that ratepayers do not pay for entertainment-related expenses is a "legitimate issue,"¹⁸¹ but fails to provide a reasonable means of resolving this issue.

First, SCE's insistence that it is in compliance with Internal Revenue Code (IRC) Section 274(n)¹⁸² does not address the issue that DRA raised. Compliance with an IRC section does not translate into compliance with this Commission's regulatory requirements. Further, as explained in DRA's Opening Brief, "[t]ax laws do not and should not govern ratemaking because they apply in different jurisdictions and serve different policies, purposes and goals."¹⁸³ Indeed, by

¹⁸¹ SCE Opening Brief, p. 234.

¹⁸² SCE Opening Brief, p. 233.

¹⁸³ DRA Opening Brief, p. 313.

SCE's own admission, Section 274(n) does not make distinctions regarding the issue raised by DRA.¹⁸⁴ Thus, SCE's "tax compliance" argument should be rejected.¹⁸⁵

Second, amid characterizations that DRA's proposal is "draconian"¹⁸⁶ and "punitive,"¹⁸⁷ SCE complains that in order to account for DRA's issue, SCE would have to review numerous expense reports.¹⁸⁸ In the next paragraph, SCE complains that the DRA auditor did not examine those numerous records.¹⁸⁹ SCE appears to be saying that reviewing its own records is too burdensome for SCE to accomplish over several years; while at the same time saying that DRA's auditor failed to accomplish this burdensome task over several months.

The key word here is "burden." SCE has the burden to demonstrate the reasonableness of its costs, and compliance with Commission orders, not DRA. Long-standing Commission precedent has disallowed entertainment-related expenses.¹⁹⁰ The Commission has thus made a distinction regarding entertainment-related expenses. If SCE wanted to, it could organize its records, and the data within its records, in a manner that allows for an easy answer to the question of which expenses are entertainment-related. SCE cannot countermand the clear Commission directive regarding entertainment-related expenses by failing to maintain records in a manner which allows for the straightforward examination of this commingling issue.

Finally, SCE argues that its so-called Compliance testimony¹⁹¹ addresses DRA's issue.¹⁹² This is simply incorrect. SCE's descriptions of its review process, review documents, and certain statistics,¹⁹³ do not provide enough information to disaggregate the entertainment-related

¹⁸⁴ See Ex. SCE-24A, pp. 52-53.

¹⁸⁵ SCE also appears to be operating under the assumption that recovery of expenses is a separate issue from tax considerations. This is incorrect, and the linkage between these issues was established in DRA's Opening Brief at p. 312.

¹⁸⁶ SCE Opening Brief, p. 234.

¹⁸⁷ SCE Opening Brief, p. 233.

¹⁸⁸ SCE Opening Brief, p. 233.

¹⁸⁹ SCE Opening Brief, p. 234.

¹⁹⁰ See for example, D.82-12-054, and D.93-12-043.

¹⁹¹ See Ex. SCE-24A, pp. 53-54.

¹⁹² SCE Opening Brief, p. 234.

¹⁹³ See SCE Opening Brief, p. 234.

expenses in SCE's showing. DRA has reviewed SCE's Compliance testimony and finds no reliable and verifiable estimation as to the entertainment-related expenses in the source documents used there. Beyond that, SCE's argument regarding the sufficiency of its Compliance testimony appears to be directly contradicted by SCE's witness on the topic, who stated that "[w]e do not maintain a listing with the sort and detail that you have requested."¹⁹⁴

In conclusion, SCE should not be rewarded for commingling its records in a manner that effectively countermands well-established Commission precedent. The Commission should adopt DRA's recommendation that business meals and travel expenses be eliminated from the regulatory Schedule M deduction, removed as a line item from FERC Account 930.2, and rejected for ratemaking purposes, until SCE modifies its accounting system to separate business-related activities from entertainment-related activities.

22. Audit

22.1 Allowance for Funds Used During Construction (AFUDC)

In its Opening Brief, SCE briefly argues against DRA's proposed AFUDC rate of 6.9521%.

First, SCE baldly asserts that DRA's AFUDC rate is based on incorrect information.¹⁹⁵ SCE has failed to provide a meaningful basis showing that DRA's AFUDC rate is based on incorrect information. For example, SCE does not say whether this "incorrect information" was provided to DRA by SCE, or if the "incorrect information" was derived through some analytical process. SCE offers no support for this "incorrect information" argument and it should be rejected.

Second, SCE makes another bald assertion that D.06-05-016 established no precedent on this issue.¹⁹⁶ It is not clear if SCE believes that the language "for this proceeding"¹⁹⁷ is the dispositive factor that limits the applicability of the Decision's analysis on the issue. In any case, since SCE gives no reason for its argument, DRA recommends that the principle in D.06-05-016,

¹⁹⁴ Ex. DRA-12 Taxes, pp. 12-5 – 12-6.

¹⁹⁵ SCE Opening Brief, p. 237.

¹⁹⁶ SCE Opening Brief, p. 237.

¹⁹⁷ See D.06-05-016, p. 218.

that accurate, recent data reflecting the short-term debt available for construction activities should be used for AFUDC, be applied here.

Finally, SCE attempts to bolster its position by pointing to 2007 data, which SCE says would result in a higher AFUDC rate. What SCE neglects to mention is that SCE has recently filed A.08-06-013, in which SCE seeks authority to increase its short-term borrowing authorization to \$2 billion.

SCE's currently proposed AFUDC rates do not incorporate this expected increase in its short-term borrowing. SCE's assertion regarding 2007 data should be rejected because it would not be just to allow SCE to underestimate the forecasted amount of short-term debt, in order to obtain a higher AFUDC rate to charge ratepayers, and then actually obtain more short-term debt in order to finance AFUDC at rate lower than the rate charged to ratepayers.

SCE has provided no meaningful arguments in support of its AFUDC rate. Thus, the Commission should adopt DRA's more realistic AFUDC rate of 6.9521%.

22.2. Prepayments for Tax Consultants

SCE's arguments regarding "Prepayments for Tax Consultants" are without merit. SCE points to some provisions in its contract with Deloitte regarding SCE losing "out-of-pocket" expenses, and payment for work performed, should SCE withdraw its claim.¹⁹⁸ What SCE fails to address is how any of these expenses are reasonable. DRA's concerns with these prepayments are premised on the "matching principle." As explained in DRA's Opening Brief, given their contingent nature, the Commission should not recognize these expenses for ratemaking purposes.¹⁹⁹

SCE's argument regarding prepayments should be rejected, and the Commission should remove these expenses from the recorded 2006 Account 923, for ratemaking purposes.

¹⁹⁸SCE Opening Brief, p. 236. SCE also points to purported "redundancy" due to certain accounting procedures. DRA notes that this stated concern is inapposite to DRA's argument that the Commission should not recognize these *contingent* fees paid in 2006, for filing refund claims for prior tax years, *for ratemaking purposes*. (DRA Opening Brief, p. 315.)

¹⁹⁹ See DRA Opening Brief, p. 315.

22.3. SCE's Undisclosed Audit Reports

In its Opening Brief, SCE re-states its failed arguments²⁰⁰ regarding its refusal to fully support its internal audit expenses. SCE's rhetoric on this issue fails to demonstrate that SCE has met its burden of proof, or that ratepayers should pay for secret audits. SCE's discussion of this issue also demonstrates certain false assumptions that SCE is incorporating into its analysis.

SCE begins its discussion by reiterating the argument that DRA's recommendation "penalizes" SCE, and is an attack on the attorney-client privilege and attorney work product doctrine.²⁰¹ By framing the issue in this manner, SCE is attempting to shift the focus away from its failure to meet the burden regarding internal audit expenses. Apparently, SCE would rather discuss the uncontested proposition that privilege applies in Commission proceedings.

DRA agrees that privilege doctrines apply in Commission proceedings. In fact, DRA is not even contesting SCE's dubious assertions of privilege in this proceeding. That is not the real issue regarding the internal audit expenses. Rather, DRA is following well-established ratemaking principles by ensuring that SCE does not recover costs that it has failed to justify. This issue has been raised because SCE's partial showing does not meet the requisite burden of proof regarding the entirety of SCE's internal audit expenses.

A good portion of the internal audit expenses are based on secret audits that are hidden from Commission and public scrutiny. SCE has conceded that "the subject audits do contain information important to the operation of the utility."²⁰² The fact that SCE invoked *privilege* in order to veil those audits from DRA does not impact the analysis of whether or not SCE has met its burden.

SCE appears to be making the erroneous assumption that its "privileged" documents should be presumed to substantiate valid expenses. That is simply not how the Commission regulatory model works. The fact remains that nobody other than SCE will be able to scrutinize the numerous secret audits. Thus, ratepayers should not be expected to pay for the entirety of the costs associated with internal audit expenses.

²⁰⁰ See SCE Motion to Strike Testimony, Dated: April 30, 2008.

²⁰¹ SCE Opening Brief, p. 234.

²⁰² Ex. SCE-27, p. 11.

SCE also attempts demonstrate that the “volume of available audit reports is sufficient to assess and determine the reasonableness of SCE’s ASD forecast.”²⁰³ Yet, this “volume of available audit reports” was not derived from a legitimate sampling procedure. SCE admits that SCE’s counsel reviewed the audits and made the determinations as to which audits would be made available for scrutiny.²⁰⁴ SCE is essentially telling the Commission: “Take a look at what SCE will allow DRA to look at, but nobody can see things that SCE is really worried about. This is particularly true given the litigious society that SCE operates in and the Commission’s ability to investigate SCE’s practices for wrongdoing. What SCE has allowed DRA to see should be enough for the Commission to find SCE’s audit costs reasonable.” SCE appears to be making the assumption that a self-selected “volume” of documentation meets SCE’s burden of proof regarding internal audit expenses. SCE is mistaken.

As discussed in DRA’s Opening Brief,²⁰⁵ SCE’s situation is similar to that of Pacific Bell Telephone Company (Pacific) in D.04-09-061. Pacific had provided a significant “volume” of 4,900 documents in support of its expenses, but refused to disclose certain documents citing attorney client privilege.²⁰⁶ Irrespective of the “privileged” status of the documents in question, it was Pacific’s failure to meet its burden of proof that resulted in the Commission supporting a disallowance.²⁰⁷

Furthermore, since only SCE and its counsel have access to the secret audits, SCE appears to be making the erroneous assumption that its counsel should be entrusted with the discretion of determining whether or not SCE has met its burden on this issue. Yet, SCE’s Law Department ultimately serves shareholder interests, not ratepayer interests. DRA respectfully submits that it is the Commission, not SCE, which should make the determination of whether or not SCE met its burden, based upon a complete record.

²⁰³ SCE Opening Brief, p. 235.

²⁰⁴ See SCE Opening Brief, p. 234.

²⁰⁵ DRA Opening Brief, pp. 319-320.

²⁰⁶ See D. 04-09-061, p. 19.

²⁰⁷ See *Id.* at p. 22.

SCE also makes a related argument attacking DRA's methodology for arriving at DRA's recommendation.²⁰⁸ SCE's "simple division" methodology makes the false assumption that all audits have the same intrinsic value. This is incorrect, and misses the point. The issue is that SCE's partial showing does not demonstrate the reasonableness of the entirety of SCE's internal audit expenses. By not producing the requisite showing of relevant evidence regarding internal audit expenses, SCE has simply not met its burden.

SCE also characterizes DRA's recommendation as being "contradictory."²⁰⁹ SCE appears to be saying that if DRA states that audit departments can be beneficial, recommending a reduction in those departments is contradictory. SCE's argument fails because it incorrectly assumes that programs with laudable goals are coextensive with programs that have demonstrated that their costs are reasonable. DRA believes that there can be a difference between a program with a positive goal, and a program that has demonstrated that the entirety of its costs are reasonable. Consistent with Commission precedent, DRA submits that SCE has failed to demonstrate that the entirety of SCE's internal audit expenses are reasonable. DRA's recommended \$1.996 million dollar adjustment is a conservative one in these circumstances.

SCE's characterization of DRA as being "contradictory" also occurs within the context of SCE's self-serving contradictions. SCE's witness on internal audit expenses conceded the importance of SCE's "transparency with the Commission regarding discovered failures and/or weaknesses."²¹⁰ However, regarding SCE's "privileged" audits, SCE refused to take any meaningful steps to elucidate the *relevant* information that could be gleaned from them. SCE could have submitted versions of the undisclosed audit reports, with attorney-client privileged information redacted. SCE could have also submitted relevant information from the undisclosed audit reports under California Public Utilities Code Section 583. Taking such steps would have been more consistent with SCE's stated position regarding transparency, and may have also assisted in the analysis of the reasonableness of SCE's internal audit expenses. Instead, SCE chose to leave DRA, and the Commission, in the dark about a significant portion of the basis for SCE's internal audit expenses.

²⁰⁸ SCE Opening Brief, p. 235.

²⁰⁹ SCE Opening Brief, p. 235.

SCE has failed to refute DRA's recommendation regarding internal audit expenses. SCE's arguments on this topic either miss the point altogether, or fail to demonstrate the sufficiency of SCE's partial showing. DRA's recommendation to reduce SCE's internal audit expenses by one-quarter [\$1.996 million] should be adopted.

23. Proposed Settlements

DRA addresses these issues in its Opening Brief at page 323.

24. Purchase of Receivables

DRA has no comment on this issue at this time.

25. Miscellaneous

DRA has no miscellaneous issues to address at this time.

26. Conclusion

For all the foregoing reasons and the reasons set forth in its testimony and its Opening Brief, DRA asks that its recommendations be adopted.

Respectfully submitted,

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²¹⁰ 14 RT 1486 Pickett/ SCE.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **REPLY BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES** in **A.07-11-011 et al.** by using the following service:

☒ **E-Mail Service:** sending the entire document as an attachment to an e-mail message to all known parties of record to this proceeding who provided electronic mail addresses.

☐ **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on August 8, 2008 at San Francisco, California.

/s/ Margarita Lezcano
Margarita Lezcano

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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